Mokoro Ltd

Putting Aid On Budget:
A Case Study of Uganda

A Study for
the Collaborative Africa Budget Reform Initiative (CABRI)
and
the Strategic Partnership with Africa (SPA)

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THE AID ON BUDGET STUDY

The Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned study of "putting aid on budget" has the following outputs:

- An ***Inception Report***, which defines the issues and research methodology.
- Ten ***country studies from sub-Saharan Africa***. Of the ten country studies, ***Ghana, Mali, Mozambique, Rwanda*** and ***Uganda*** were studied in depth, and separate country reports are available. The experiences of Burkina Faso, Ethiopia, Kenya, South Africa and Tanzania were also reviewed and summary information is included in the Synthesis Report annexes. Findings from all ten countries are included in the Synthesis Report.
- A ***Literature Review***, which (a) documents existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; (b) reviews the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and (c) documents relevant experiences of efforts to capture aid in government budgets, including desk reviews of some additional countries, including countries from outside Africa.
- A ***Synthesis Report*** which draws on all the other study components to develop overall findings and recommendations.
- A ***Good Practice Note*** which distils the lessons of the study and is aimed at donors as well as partner governments.

The reports can be downloaded from the CABRI website at http://www.africa-sbo.org/.

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Disclaimer

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This report was prepared by independent consultants. Responsibility for the contents and presentation of findings and recommendations rests with the study team.

The views and opinions expressed in the report do not necessarily correspond to the views of CABRI or SPA.

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Abbreviations and Acronyms

ADB	African Development Bank
ALD	Aid Liaison Department
BCC	Budget Call Circular
BFP	Budget Framework Paper
CABRI	Collaborative Africa Budget Reform Initiative
DAMFAS	Debt and Aid Management and Financial Analysis System
DFID	Department For International Development (UK)
DMS	Development Management System
DOL	Division of Labour
EC	European Commission
FDS	Fiscal Decentralisation Strategy
GDP	Gross Domestic Product
GOU	Government of Uganda
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome
IDD	International Development Department (University of Birmingham)
IFMS	Integrated Financial Management System
JLOS	Justice, Law, Order and Security
LG	Local Government
LGDP	Local Government Development Programme
MDAs	Ministries, Departments and Agencies
MFPED	Ministry of Finance, Planning & Economic Development
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
OECD DAC	OECD Development Assistance Committee
OPM	Oxford Policy Management
PAC	Public Accounts Committee
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFAA	Public Finance and Accountability Act
PFM	Public Financial Management
PIP	Public Investment Plan
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
SPA	Strategic Partnership with Africa
SWAp	Sector Wide Approach
SWG	Sector Working Group
UGS	Uganda Shilling
UK	United Kingdom

1. Introduction

1.1 This is a case study on Uganda of the practices of putting aid on budget and government financial management systems. It is part of a wider study on "Putting Aid on Budget" commissioned by DFID on behalf of CABRI (the Collaborative Africa Budget Reform Initiative) and SPA (the Strategic Partnership with Africa). The aim is "to produce outputs which will better equip governments in Sub-Saharan Africa to lead country-level processes to ensure external development assistance (aid) flows are properly reflected in national budget documents, ex ante (budget presented to legislature) and ex post (out-turn accounts)".

1.2 The Inception Report for this study notes that "on budget" is an ambiguous term in itself, and there are a number of related concepts which are also directly relevant to this study. These terms are linked the capture of aid at different phases of the budget cycle. Box 1 shows the terms and the definitions of them that will be used in this study.

Box 1: Different Dimensions of "On Budget"/Capturing Aid

Term	**Definition**
On plan	Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget[1]	External financing, including programme and project financing, and its intended use reported in the budget documentation.
On parliament (or "through budget")	External financing included in the revenue and appropriations approved by parliament.
On treasury	External financing disbursed into the main revenue funds of government and managed through government's systems.
On accounting	External financing recorded and accounted for in government's accounting system, in line with government's classification system.
On audit	External financing audited by government's auditing system.
On report	External financing included in ex post reports by government.

Source: Mokoro Limited, *Putting Aid on Budget: Inception Report*, final draft, 12 June 2007.

1.3 This case study first provides a summary of the overall capture of aid in these dimensions. It then reviews in more depth (a) the capture of aid during the Medium Term Expenditure Framework (MTEF) and budget process, and (b) the interaction of aid with local government budgeting and expenditures.

[1] It should be clear from the context if "on budget" is meant in a more general sense than this precise definition.

2. Country Context

Political framework

2.1 Despite a lingering civil war in the North of the country, when compared to the rest of its turbulent history since independence, Uganda has been relatively peaceful for the last 20 years, and has enjoyed macroeconomic stability and sustained economic growth over the bulk of that period. The president, Yoweri Museveni, who has been in power since 1986, oversaw the initial transition to democracy. Uganda is a unitary state, and is governed by a president, prime minister plus parliament, which were enshrined in a 1995 constitution. Between 1995 and 2006 there was a "no party" movement system of politics, but since 2006, there has been multi-party democracy, following constitutional amendments. The executive is very powerful in Uganda, and parliament remains dominated by the ruling National Resistance Movement, which became a political party following the changes.

2.2 Following decentralisation reforms in the 1990s, districts and municipal local governments are responsible for the delivery of the bulk of basic services. There are also lower local governments (towns and sub-counties) which have less significant roles. A regional tier of government was introduced as part of constitutional amendments in 2005, but this has yet to be put into operation.

Aid

2.3 Uganda is a highly aid dependent country, with aid averaging over 10% of GDP and half of public expenditures. The majority of aid is provided as grants, although loans make up approximately 40% of on-budget aid. Uganda has had one of the highest sustained flows of budget support of any developing country (see IDD and Associates 2006 for a full analysis of budget support in Uganda). However, projects are still a major source of funding, and appear to be on the increase, whilst budget support appears to have stabilised in recent years. Common (or basket) funds are less prevalent than many countries due to the use of sector budget support. Humanitarian aid is important for northern Uganda, where there has been a long civil war, but the vast majority of aid is provided financially, and to the government. Also some technical assistance is provided in kind rather than as on-budget projects. The aid environment is highly congested with over 40 donors operating in Uganda. The World Bank has historically been the largest donor in Uganda, with the EC being the second multilateral. The largest bilateral donor is the United States, followed by the UK. Other "like-minded" donors, made up of the Nordic countries, the Netherlands, and Ireland are the other major donors.

PFM and aid management institutions and systems

2.4 A combined ministry of finance and planning – the Ministry of Finance, Planning and Economic Development (MFPED) oversees planning, budgeting and accounting systems and processes, as well as aid management systems and processes. The National Planning Authority, formed in 2003, is now responsible for preparing the third iteration of Uganda's Poverty Reduction Strategy (PRS) the Poverty Eradication Action Plan (PEAP), Uganda's Poverty Reduction Strategy, with sectors responsible for preparing strategic plans and local governments' development plans. The Directorates of Economic Affairs and Budget in the MFPED manage macroeconomic, fiscal policy and the budget process, whilst the Accountant

General is responsible for the compilation and management of government accounts and custody and the safety of public funds and resources. Local Governments are responsible for preparing and approving their own budgets, but earmarked conditional grants limit their autonomy over resource allocations. The Auditor General is responsible for auditing all central and local government accounts, and the Public Accounts Committee (PAC) of Parliament is responsible for reviewing the report and agreeing the follow-up.

2.5 Uganda has a well established Medium Term Expenditure Framework (MTEF) and consultative budget process (see Box 2), which is often cited as good practice, although it has begun to slip in timeliness and quality in recent years (Williamson 2005). Sector working groups are the focus of preparing budget submissions, whilst political engagement in the budget by Cabinet and Parliament is relatively strong, and is supported by a Parliamentary Budget Office. For a long time accounting reforms lagged behind those to budget formulation but reforms to the legal framework and the introduction of an Integrated Financial Management System (IFMS) and reforms to internal audit are likely to improve accounting and expenditure controls. Audit reports have been increasingly timely and quality is improving, although there is a backlog of work in the PAC.

Box 2: The Consultative Budget Process

Between October and April, line ministries and agencies come together in Sector Working Groups to prepare medium term sector budget strategy documents, called Sector Budget Framework Papers (BFPs) which are combined into a National Budget Framework Paper. The National BFP and MTEF within it are discussed and approved by cabinet, before being commented upon by parliament, and form the basis of annual budget allocations.

Following this, line agencies prepare their annual budget estimates which are reviewed and compiled by the MFPED into the annual government budget which is presented to Parliament June. Also, by the end of June line ministries prepare Ministerial Policy Statements which set out the annual budget in detail. Following the presentation of the budget to parliament, parliament discusses the budget estimates, and is required to approve the estimates within three months.

2.6 Whilst there is no specific law regarding aid, its management is guided by the legal framework for public financial management. The 2003 Public Finance Accountability Act brought all aid to government, including project support, formally within the government's budgeting and accounting systems, as described in Box 3. In terms of policy, Partnership Principles agreed in 2003 set out the general structures and processes for delivering aid, including GOU's preferred aid modalities, which are programme aid, and in particular general budget support (MFPED 2003).

2.7 The MFPED is central to the process of managing aid. Under its Directorate of Economic Affairs, the Aid Liaison Department is responsible for liaison with individual donors, negotiating agreements, maintaining aid data, and managing interactions with national aid coordination mechanisms. The Macroeconomic Policy Department also collects aid data directly from donors for the purpose of macroeconomic planning and management purposes. Meanwhile the Budget Directorate is responsible for managing aid in the context of the planning and budget cycle and its sector desk officers have a significant role with respect to aid management at the sector level. The MFPED also chairs the Development Committee, which has historically been responsible for reviewing and approving new project proposals and reviewing development budget submissions every financial year prior to inclusion in the budget.

Box 3: Aid and the Legal Framework in Uganda

The explicit reference to aid in the legal framework relates to the management of grants and loans (Public Finance Act sections 20-30; Regulations sections 55-57); and the Budget Act (Section 13). All loans and grants should be received by the Minister of Finance and paid into the consolidated fund[2] or a special fund approved by Parliament. In addition the Minister of Finance is required to incorporate the amount to be raised in Loans and Grants, and the costs of servicing loans, in the annual estimates of revenue and expenditure. Finally the Government is required to report to parliament each year at the time of the budget and before information on grants extended and their sources, and the utilisation of those grants, including information on performance against objectives. Therefore, de jure, all aid to government must be captured in the budget approved by Parliament, accounted for by Accounting Officers and the Accountant General and subject to audit by the Auditor General.

2.8 Since the introduction of the sector-based MTEF in 1998, much of aid coordination has been focused on institutions and mechanisms at the sector level. Sector Working Groups are central to aid management as well as budgeting at the sector level, as are Planning Departments in line ministries. More than half the sectors in the MTEF have established Sector Wide Approaches (SWAps) and including annual sector review processes, which are used for agreeing conditions relating to sector and general budget support and for reviewing their implementation and the implementation of donor funded projects and programmes. The quality of aid management at the sector levels depends very much on the pro-activeness of the sector working group and in particular of the sector ministry planning department, the MFPED desk officers, and the donors themselves.

2.9 Donors themselves have established coordination mechanisms. A high level Local Development Partners Group oversees aid coordination and is supported by a Harmonisation Sub-Group which works on implementing the Paris Agenda. A series of sector donor groups work with their respective sectors, operating through Sector Working Groups (SWGs) and SWAp processes. The Donor Economist Group spearheads dialogue on the budget process with the MFPED, through the Public Expenditure Working Group. A PRSC steering Committee, chaired by the Office of the Prime Minister is the home of the Donor Government dialogue on General Budget Support. (For more on these dialogue structures, see IDD & Associates 2006.)

[2] The consolidated fund is where all government revenues are deposited unless otherwise legislated for, and is made up of a Consolidated Fund Account and a number of other separate bank accounts held in the Bank of Uganda.

3. Evidence and Assessment of Aid Capture

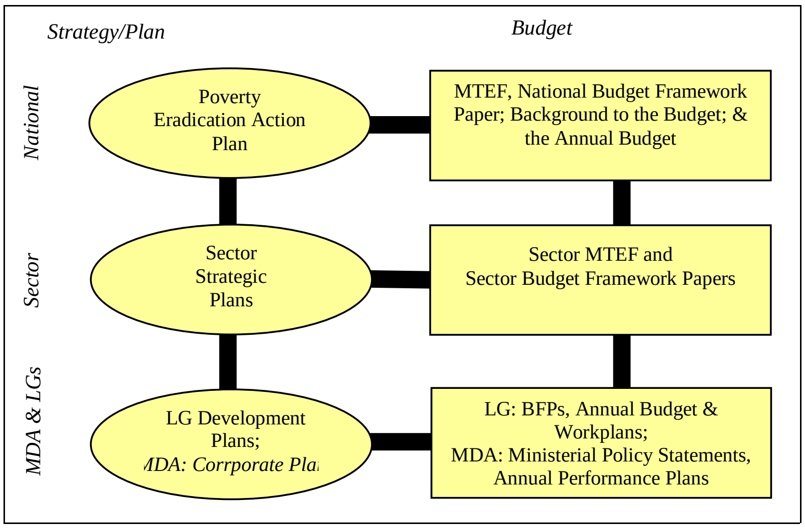
3.1 This section reviews the capture of aid at different points in the budget cycle, using the dimensions set out in Box 1 above.

Aid on plan

evidence

3.2 Figure 1 is an overview of the links between plans and budgets in Uganda.

Figure 1: Links from Strategic Plans to Budgets



Source: Williamson (2003).

3.3 In most strategic planning documents aid is mentioned only in general terms, if at all:

- **The Poverty Eradication Action Plan** and the **Long Term Expenditure Framework.** Aid is incorporated in the PEAP at a very general aggregate in terms of projections in the Long Term Expenditure Framework, which sets out long term revenue and sector expenditure projections. In addition the principles of providing aid are set out, with government expressing a preference for budget support.
- **Sector Strategic Planning.** Some sector strategies include financing strategies which provide for the provision of aid. This is again at a very general level – e.g. in the draft consolidated sector investment plan the quantity of donor project aid is projected overall. Others do not mention aid at all. For example, the Education Sector Development Plan is costed, but does not identify the role of aid or aid management issues.
- **Local Government.** Local Government Development Plans have tended to be shopping lists of projects which are not linked to the availability of resources. Whilst some may identify projects which have secured donor funding this is not usually comprehensive. Often aid is completely off plan.

3.4 **National and Sector Budget Framework Papers and MTEF** Whilst there is little mention of aid explicitly in strategic plans, aid is explicitly incorporated into the strategic phase of the budget process in National and Sector Budget Framework Papers (BFP). All sectors include projections for donor project aid in their BFPs, at an aggregate level, at least. Box 4 shows the requirements set out in the 2007 Budget Call Circular for incorporation of external financing in the MTEF, which represents an effort to improve project information in Sector BFPs.

Box 4: Requirements for Including Aid in MTEF Submissions

External Development Projects

As you may all be aware, donor projects are integrated in the Medium Term Expenditure Framework and form part of the sectoral allocation ceilings. Additionally, all donor and Government of Uganda funded projects are supposed to be fully discussed at the sectoral level to ensure that the projects meet the agreed criteria to be considered for inclusion in the MTEF as indicated below.

- Consistency with budget strategy (integration)
- Consistency with the PEAP
- Consistency with debt strategy
- Consistency with deficit strategy
- Sector Working Group Approval
- Development Committee Approval

As a requirement for the BFP for 2007/08, all sectors are requested to provide a comprehensive list of the existing stock of projects and pipeline projects in the Medium Term and Expenditure Framework period.

Source: Budget Call Circular 2007.

3.5 The National BFP, which represents the overall GOU medium term budget strategy document, consolidates sector information from sector BFPs with the Macroeconomic Framework. It provides aggregate information on project aid as presented in Macroeconomic Framework and the MTEF (see budget structure, Figure 1 above), as well as details of HIPC debt relief and budget support notionally earmarked to the Poverty Action Fund.

3.6 Medium-term allocations to projects are also presented at the time of the budget, in the form of the Public Investment Plan. This was a key functionality of the Development Management System which was intended to integrate development planning and the preparation of the development budget. In this three year rolling plan linked to the budget, which is prepared every year at the same time as the annual budget, aid allocations over the medium term are presented, which is consistent with the MTEF.

Box 5: The Development Management System

The Development Management System (DMS), administered by the Aid Liaison Department of the MFPED, is a database driven system, which was originally developed in the early 1990s to integrate the preparation of development planning, the development budget, and aid data. Although details of individual projects and programmes are initially supposed to be captured at the time agreements are made the system is largely used for as the mechanism for generating the development budget estimates and the Public Investment Plan. The DMS includes information on off-budget aid to parastatals for example, which appears in the 3- year Public Investment Plan. The aid data contained in the development budget relies primarily on data from spending agencies submitted during the budget process, and given this sole source of data, the quality of the data contained is questionable.

3.7 In 2006 a Division of Labour Exercise was launched with an aim, inter alia, of improving the alignment of donor engagement to the implementation of the Poverty Eradication Action Plan. As part of this exercise, a Financial Data Tool was developed which collected aid data from donors and mapped that aid onto the Poverty Eradication action Plan, as well as the MTEF and Budget. Aid information was also mapped onto sector objectives. Although this was a one-off exercise it provided a comprehensive picture of aid, both to government and to parastatals and NGOs, and revealed important information on how aid was aligned with the PEAP. As we shall discuss later, this exercise also revealed issues in the scope and quality of the Government of Uganda's existing aid data.

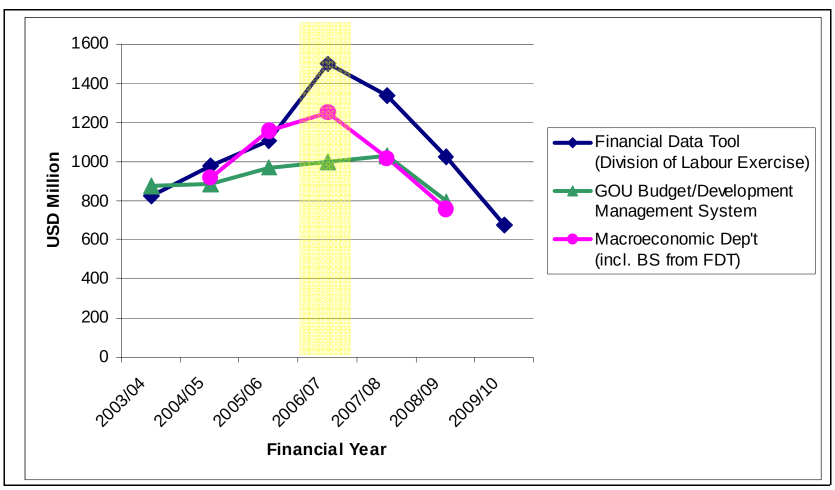
quality of capture

3.8 **Strategic Plans.** As discussed above, in the PEAP and strategic plans, aid is considered in very general terms, which is largely appropriate. The Public Investment Plan presents comprehensive project information over the medium term, including to parastatals, yet is not presented in a way which facilitates strategic resource allocation, as in effect it is again a list of projects implemented by administrative units.

3.9 Next we focus on the capture and quality of aid information in **Budget Framework Papers and the MTEF**.

3.10 *Quality of Aid Data:* Aid data provided by donors is largely based on financial commitments, and donors are either unwilling or unable to provide medium term estimates of aid other than what has been committed. This provides two problems. Firstly, that aid data provided by sectors and by donor agencies for the budget year are usually fairly comprehensive, but over-optimistic – i.e. in aggregate not all donor commitments are realised. Secondly aid projections for the outer years usually underestimate future levels of aid, as existing commitments tail off over the medium term. The diagram below shows data compiled under the Division of Labour Exercise and the (undiscounted) Macroeconomic Department data compiled directly from donors. Both show a significant tailing off of aid over the medium term (2006/07 was the budget year).

Figure 2: Comparison of Aid Projections at the time of the 2006/07 Budget



Source: ODI (2007).

3.11 At the aggregate level, for the purpose of macroeconomic management the Ministry of Finance tries to make realistic projections of aid, by discounting aid for the budget year in question (different discounts are used for budget support and projects), and making realistic projections of budget support (i.e. projecting it above committed levels) over the medium term. The latter is an inexact science, especially because of the lack of realism in aid data from donors and sectors.

3.12 Debt relief and general and sector budget support are all fully integrated into the MTEF, and fund domestic expenditure allocations. Sector budget support is only notionally earmarked. This means that (like general budget support) it is not explicitly tracked to specific expenditures, and therefore is not mentioned explicitly in national and sector BFPs except as a revenue source.

3.13 *National and Sector Budget Framework Papers:* Leaving data quality issues on one side, it is important to look at the way in which aid is presented in National and Sector Budget Framework Papers. In the National BFP the fact that project aid is presented by sector and spending agency in the MTEF is an important element which facilitates strategic resource allocation. Past performance is also presented in aggregate in the MTEF and Macro Framework.

3.14 In Budget Framework Papers, budget past performance is reviewed and future projections are supposed to be made including aid across all sectors, as required in the Budget Call Circular. Six BFPs were reviewed for this study. Of these, three (Water, JLOS and Works) provided a breakdown of donor performance by projects and outputs in previous years whilst one (Agriculture) provided aggregate information of the same. Neither the health or education sectors, with supposedly well established SWAps, incorporated information on past financial performance of donor-funded projects.

3.15 In terms of projecting future aid, all sectors provide aggregate information on project aid to sector institutions over the medium term. However the level of compliance with the requirements of listing future project aid (see the Budget Call Circular, Box 4 above) varies across sectors. This includes both whether SWGs and the Development Committee have approved projects and the degree to which projects are listed. Of seven BFPS[3] reviewed only the Works and Water Sectors included donor allocations to individual projects over the medium term, whilst others presented only the overall total project donor allocations over the medium term (e.g. Accountability, Agriculture, JLOS), and project lists were missing.

3.16 In addition, at the sector level, information on project aid is often not presented in a way which facilitates strategic resource allocation. Often project lists are only that, and they are not linked to strategic objectives, only to the institution running the project or programme. In the roads and water sectors, they are at least presented by sub-sector. Where matrices of outputs and activities are presented, they can be overly detailed and lose strategic focus. In such a context it is difficult to see the role of project aid, even if it is funding a major share of expenditures.

3.17 ***Transparency:*** A positive element is the transparency of the process and the availability of sector and national budget framework papers to stakeholders in sector working groups and across government.

[3] The Accountability, Education, Agriculture, Health, Justice Law and Order, Water, Works and Accountability.

Explanation

3.18 *Quality of Data:* One of the main reason aid data tails off over the medium term is that donors are unwilling to make projections above what they have formally committed to, even though they know that new projects and programmes are likely to appear.

3.19 *Well-presented Information in the National BFP:* Data is well presented in the national BFP largely because the MFPED has established capacity and a well functioning system of and capacity for summarising the information contained in sector BFPs in the National BFP. This is in part because MFPED took a clear and simple approach to doing so from the outset. However it is often difficult because of the variable quality of sector BFP submissions.

3.20 *Variable Presentation of Aid Data in the BFP:* There are a number of reasons why aid data is poorly presented in sector BFPs. Whilst the general structure of BFPs is well conceived, the guidelines in the BCC for the preparation of BFPs are quite vague in terms of the presentation of financial information in general and aid in particular and can be interpreted in different ways. This is exacerbated by the variable capacity of sector working groups and line ministry planning departments. The tendency also is to prepare very long documents, which lack a strategic focus. Line ministry planning departments also may not always keep track effectively of the performance of different projects.

3.21 *Incentives:* Whilst donors are uncomfortable with providing medium term data beyond legal commitments, largely due to the fear of being held to account when projections are not honoured, sector working groups and spending agencies face few incentives to ensure that medium term aid figures are realistic during the budget process, as the focus remains on the annual allocations for the budget year in question. If anything the incentives over the medium term are for spending agencies to under-declare future project aid, due to the integration of project aid in budget ceilings as discussed in the next section.

Aid on budget

evidence

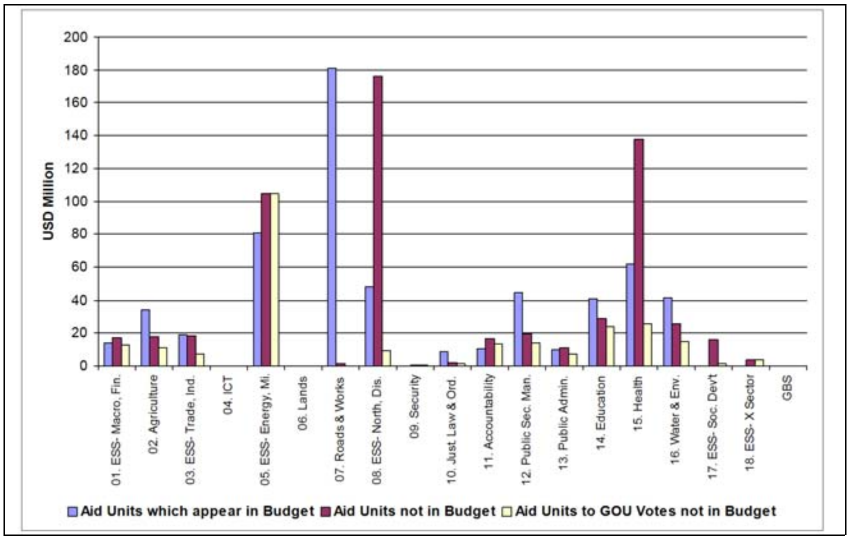
3.22 Aid is captured in the annual budget documentation at three levels: the budget speech, the annual budget estimates, and the Ministerial Policy Statements.

- **The Budget Speech** The budget speech document provides a summary of the MTEF and Macroeconomic Framework, and on-budget aid to government is incorporated into this, as described above.
- **The Estimates of Revenue and Expenditure** The detailed annual budget estimates include the summary tables from the budget speech plus detailed information of project aid in the development budget estimates. As mentioned earlier, the development budget is presented which shows the allocations to individual projects for each vote in detail. This is presented by line item in terms of local allocations, donor funded allocations and in total. The funding sources are also presented – either the GOU budget or the specific donor.
- **Ministerial Policy Statements** These are prepared by line ministries and also capture project aid. Aid is captured in a similar way to budget framework papers. Statements often append the relevant extracts from the draft annual budget estimates for the recurrent and development budget, and therefore include aid.

quality

3.23 ***Completeness and Credibility*** All aid to government votes is supposed to be captured in the annual budget, but in practice there are gaps. Figure 3, from the Division of Labour Exercise, shows that not all aid to GOU votes is captured in the Budget Estimates.[4] Only five out of eighteen sectors reported no aid to GOU votes outside the GOU budget. It is important to note that much aid is legitimately off budget – for example aid to NGOs and parastatals do not appear on the budget out of policy. Taking this into account however, the data from the DOL exercise estimated that up to one third of project aid that should appear on budget actually did not appear in 2006/07.

Figure 3: Aid on Budget (Analysis by Sector for 2006/07)



Source: ODI, 2007.

3.24 Meanwhile the allocations which appear in the Annual Budget – the Estimates of Revenue and Expenditure- are based on annual donor commitments, rather than the discounted numbers which appear in the Macroeconomic Framework and MTEF. This is because it is difficult to predict which individual project or programme is likely to under-perform.

3.25 *Aggregation and Disaggregation:* Aid is well integrated into the government documentation, as already mentioned. However, there are problems in presentation of data in the budget estimates, which is largely administrative, with separate recurrent and development budgets which are not combined at the vote level beyond what is in the MTEF. This makes it difficult to get a picture of what aid and domestic government expenditure is being spent on, overall. Meanwhile ministerial policy statements, like the Budget Framework Papers, suffer from a lack of standardisation in the way data is presented. These are issues relating to overall budget presentation rather than a lack of integration of aid, which is well integrated in terms of structure and process.

[4] The data here is from the interim report of the Division of Labour. Whilst donors provided this information, this has not been verified by Sector Working Groups. For example it is likely that the aid reported for GOU votes to the Energy Sector may in fact be channelled to the Power Utility, which legally, should not be on budget.

3.26 *Timing:* The timing of final aid data is problematic, with donors often providing final information to the Macroeconomic Department late in the budget process. This makes it difficult to compare and reconcile with sector level data provided in budget submissions.

3.27 *Official Documentation:* As noted above, the information above is all part of official documentation which is submitted to parliament.

explanation

3.28 *Incentives & Quality:* From 2003, project aid has been integrated into budget/MTEF ceilings, and this appears to have created perverse incentives that have arguably undermined the realism of aid data in both the MTEF and the annual budget. This integration not only means that the level of project aid is presented in the MTEF and budget, but also any increases in project aid would result in a reduction in domestic budget allocations for a sector to remain within the ceiling. The rationale, which is sound, is to improve allocative efficiency, by encouraging budgetary decisions on the basis of overall resources to the sector, and an examination of how sectors should be financed (i.e. the balance between domestic resources and projects). However in order to avoid the risk of reduced GOU domestic budget funding, sectors have faced perverse incentives: both not to disclose all donor funded projects for which they are receiving funds, and to under-estimate the level of this donor project funding.[5] This is exacerbated by the fact that the budget processes, and the Development Management System, rely on aid data generated by sector ministries themselves, and not from donors directly.

3.29 The initiative of the Macroeconomic Department of MFPED to collect aid data directly from donors was an effort to get more realistic aid data. Although donors face similar incentives not to disclose project aid in full to the MFPED, the exercise does appear to have generated more comprehensive data. A major problem has been the reconciliation of that data with that generated from the Sector Working Groups. This is exacerbated by the late provision of firm numbers by donors mentioned above. No modality for doing this has been established, and the data used for macro projections and the data for the annual budget and PIP remain un-reconciled. However this and the Division of Labour Exercise mentioned in the discussions on aid on plan have highlighted the need to improve the quality and consistency of data.

3.30 The fact that donors often operate different financial years to the Government of Uganda also undermines the quality of aid, and project projections in particular.

3.31 *Presentation of Information:* Early reforms in the 1990s focused on the integration of aid into the development budget, however, subsequently, the focus of budgetary reforms has been on the front end of the budget formulation process. This has meant that little attention has been given to the way in which the annual budget and ministerial policy statements are presented in recent years.

[5] Prior to the integration of project aid into the MTEF the incentives were the reverse. If a spending agency inflated aid allocations or continued to assert that donor projects were ongoing after they closed, agencies could claim that more counterpart funding was required, and therefore argue for higher domestic development budget allocations than actually was needed.

Aid on parliament

evidence

3.32 In the budget process and PFM cycle Parliament has three main stages of engagement:

- First is to review and make recommendations to the Executive on the contents of the National Budget Framework.
- Second is to deliberate on and approve of the national budget. The focus of parliamentary discussion on the annual budget estimates are Ministerial Policy Statements. The relevant sectoral sessional committees review the budget and report to the Budget Committee. Parliament is supported by the Parliamentary Budget Office in this exercise
- Third is the review by the Central and Local Government Public Accounts Committees of the Auditor General's reports.

3.33 As discussed in Section 2, it is legally required that all aid to government is part of the budget process. This will be limited by the degree to which aid is incorporated in the relevant official budget and audit documentation. The coverage of aid in planning and budget documents has already been reviewed; audit documentation is discussed later in this section.

3.34 In addition Parliament has the responsibility of approving loans and guarantees, on a case by case basis. The Economic Committee of Parliament takes the lead in this.

quality

3.35 Overall the scope and quality of parliamentary oversight has been improving in recent years. The enactment of the Budget Act in 2001 was key in extending parliamentary involvement in the process to commenting on the BFP and the establishment of the parliamentary budget office, which has helped support Parliament in its discussions of the budget. However the Budget Act still means that Parliamentary Scrutiny of the budget occurs in the new financial year, after the GOU and projects have started spending funds, and usually its influence on the budget proposals is marginal.

3.36 As discussed in Section 2, the Public Finance and Accountability Act was key in bringing project aid formally under the purview of parliament, whereas previously it had just been provided to Parliament for information purposes.

3.37 Another key change in the dynamics of Parliamentary involvement has been the introduction of political parties in 2006, which means that the Parliamentary Committees are chaired by members of the opposition. This has added vigour to the process of parliamentary scrutiny, and contestation.

3.38 Whilst the budget process does provide a sound basis for scrutiny by parliament of aid, and Parliament is becoming increasingly active in debating the budget and audit reports, there are some key weaknesses:

- Whilst the National BFP, and the presentation of aid within it provides a fairly useful basis for parliament to comment on the executive’s proposals inter-sectoral allocations, this is limited by the quality of aid data within it.

- In addition to the quality of aid data, the way information is presented in Ministerial Policy Statements and the Annual Budget Estimates is more the limiting factor for parliamentary decision making on the budget.
- The scope of parliamentary scrutiny of project aid is severely curtailed by the fact that, the Auditor General's Report does not cover all project aid, although legally required to.

explanation

3.39 The fact the Budget Act was an initiative of parliament, not the executive as the Act was introduced through a Private Members bill, which indicates the extent of interest of the Legislature in the process. Although far from being strong, the existence of a Parliamentary Budget Office does help in the quality of scrutiny by parliamentarians. The introduction of multi-party politics has added vigour to the scrutiny by Parliament, although committees are still dominated by the ruling party.

3.40 The explanations for the problems is the way information is presented and the quality of aid information have been handled in ¶3.23–3.31, whilst the limited scope of audit reports is discussed in ¶3.56–3.62.

Aid on treasury

evidence

3.41 *Programme Aid:* All programme aid, including general budget support and sector budget support is disbursed through the Consolidated Fund Account using the treasury system in its entirety. The MFPED requests donors to disburse programme aid into the consolidated fund according to agreed disbursement schedules.

3.42 *Project Support:* Disbursements of project aid are to project accounts which form part of the Consolidated Fund, although they are not part of the Treasury's Consolidated Fund Account. In 2004 the Ministry of Finance required that project support be transferred to project accounts in the Bank of Uganda, and managed from there rather than commercial banks, which has improved information. By June 2006 UGS 235bn (up from 57bn in 2005) was deposited in 467 project accounts in the Bank of Uganda. These accounts fall under the supervision of the Accountant General, and are managed by the respective government spending agencies. Spending agencies are required to forward requests for disbursement of funds to the Accountant General who forwards the request to donors. Although most major donors and projects observe this system, it is not universal.

quality

3.43 *Programme Aid:* The PFM performance report (Pretorius, 2006: 31) states: *Overall, general and sector budget support has performed well in the last three years, in contrast to earlier years. Budget support disbursements ($ terms) have been 95%, 89% and 89% of their forecasts. Excluding HIPC debt relief this figure has been 92%, 94% and 89% of their forecasts. ….. Disbursements delays for the last three years have not been material."* Some budget support is notionally earmarked to the Poverty Action Fund. The main commitment the GOU makes with respect to the PAF is to ensure that budget disbursements are at least 95% of budgeted amounts for PAF programmes. However the funding sources are not tracked to specific expenditure lines.

3.44 *Project Aid:* The predictability of disbursements of project aid through parallel systems is difficult to assess. However the unpredictability of project aid is evident, as the MFPED sees fit to apply a discount factor at the time of budgeting. The Bank of Uganda and MFPED are now able to track disbursements to and outflows from project accounts, as part of its liquidity management. There is no fully reconciled statement of budgeted project aid, aid disbursed and aid used.

3.45 Disbursements of project and programme aid – both grants and loans – are managed and monitored by the Treasury, through the Debt and Aid Management and Financial Analysis System (DAMFAS)

explanation

3.46 Programme aid is by definition on Treasury. The movement of project accounts into the Bank of Uganda was largely motivated by a desire to improve liquidity management, as GOU had substantial idle balances lying in commercial accounts, and also needed to comply with the Public Finance and Accountability Act, which required projects to be part of the Consolidated Fund.

Aid on account

evidence

3.47 Debt Relief and Budget Support in all its forms use government accounting systems in full, and expenditures funded by budget support are covered in the accounts of central and local governments. Programme and on budget project aid receipts against the revenue budget are captured on account via the DAMFAS. The chart of accounts allows for both programme aid as well as project aid to appear in the budget both as a revenue item, and as the specific source for particular expenditures. However the tying of funds for expenditures funded by programme aid is not separately identifiable on the expenditure side, as programme aid is only notionally earmarked.

3.48 As well as appearing on the revenue budget, project aid may use government procurement systems, but no projects use the government's accounting systems. However, to date a mechanism has not been developed through which project expenditures funded by donor aid can use either the automated accounting systems at central government, or a manual one. It is assumed that project expenditures use the donor accounting system. Meanwhile many projects submit their accounts for audit late or, use different financial years, which complicates the accounting cycle, and prevents spending agencies preparing consolidated project accounts for a given financial year. This means that most spending agencies' annual accounts prepared for audit do not cover project aid.

3.49 Some project aid will use local government accounting systems, which are manual, but kept in separate bank accounts at that level. For example an ADB-funded classroom construction programme used the same accounting and reporting requirements as the government funded schools facilities grant to local governments.

quality

3.50 As with the budget and treasury, expenditures financed by programme aid are automatically covered by the government accounting system. Programme aid is not, however tracked to specific expenditures through the accounting system.

3.51 As there is little or no capture of project aid in the government accounting system, it is neither captured well, nor usefully. Project aid does not appear in the annual financial statements of the spending agency concerned, although separate project accounts (usually using the donor system) will be prepared.

Explanation

3.52 Although the accounting system would allow the tracking of expenditures by source this is not done, as any earmarking of budget support to expenditures (via the PAF or sectors) is only notional. From the outset of the PAF, it was agreed that there was little value in tracking expenditures, as development partners

Aid on audit

evidence

3.53 Debt relief and budget support in all its forms are covered in the overall report of the Auditor General – both in terms of his audit of Central Government Votes and his audits of local governments.

3.54 In addition to auditing central Government Votes, the Auditor General audits donor project accounts individually, and since 2004/05 offers an opinion on those projects and these opinions and findings are presented his Annual Report. Where relevant this covers aid provided to that project. In the 2003/04 financial year the Auditor General was only able to Audit 2/3 of donor funded project accounts, often due to the delays in the submission of accounts. However none of these reports formed part of the Annual Report. The following year, the situation appeared to have approved, and some project specific reports appeared. In his report on the 2004/05 financial year he states *"During the year 70 projects were audited and their accounts certified and 19 were still being audited, whereas 2 remain outstanding."* However the vast majority of projects appearing in the Audit Report related to the agriculture sector, and there were more donor funded projects in the budget for that financial year.

quality

3.55 Whilst the timeliness and quality of the Auditor General's Reports has been improving overall, but there key problem appears to be that audit of projects by the Auditor General is incomplete, and that when audited, this is does not form part of the Annual Report. In the 2004/05 report the Auditor General states "*The problems encountered during the audit included the delays in the submission of final accounts by a number of projects…*" (pXV) This also a reason behind the fact that accounting officers are unable to prepare consolidated project accounts when preparing their annual accounts (see above).

3.56 The second problem is the capture of the information of project aid in the budget. In the 2004/05 report the Auditor General also states:

"A scrutiny of the approved budget revealed that various projects received funding from un-appropriated sources/donors. From a sample tested $23,972,298.87 … was disbursed to projects outside the approved budget. It appears therefore that information provided to parliament for approval is inadequate with regard to donor funded projects." (p14)

3.57 Audit reports submitted to Parliament are limited to financial information, although some of the project reports may involve an element of value for money. As Government becomes increasingly timely with the preparation of its accounts, so has the Auditor General been increasingly timely with the auditing of reports. The access to audit reports is good – reports to parliament are in the public domain and available on the website, as are some agency specific accounts (www.oag.go.ug – although that site is not particularly well maintained which means some of the links do not work).

explanation

3.58 In the context of the move towards budget support the Auditor General has benefited from significant institutional support in recent years, and also the timely preparation of audits has been a key focus of conditionality. This has helped underpin the improvements in quality and timeliness of audit reports.

3.59 Although the capacity of the Office of the Auditor General is limited to carry out substantive audits, he is increasingly interested in capturing project support in the Annual Audit Reports.

3.60 A key problem is the scheduling of project audits and the lack of involvement of the Auditor General. Audits are often commissioned directly by individual donors for projects they fund, and this is not always done with the approval or knowledge of the Auditor General, and information is not shared. Audits also may be carried out in accordance with donor and not GOU financial years. The Auditor General is also not comfortable with endorsing project audits where he has not been involved in their commissioning.

3.61 In addition the fact that not all aid is included in the budget, as outlined in above adds to the incompleteness of Audit reports.

Aid on report

evidence

3.62 The content of annual financial statements was mentioned earlier. In addition to the annual financial statements of spending agencies the following are the main vehicles of reporting on aid, and the extent of aid information captured:

- ***Project Reporting System*** The Office of the Prime Minister since the late 1990s has attempted to establish a project reporting system which included financial information on aid, but compliance has been the major problem, and information has not been consolidated.

- ***Budget Performance Reports*** Budget performance reports, which are prepared every six months provide aggregate information on disbursements relating to grants and loans, projects and budget support. In addition budget support disbursements are broken down by donor.
- ***Annual Development Cooperation Reports*** Each year the Aid Liaison Department of the Ministry of Finance Prepares a Development Cooperation Report which attempts to provide comprehensive data on aid disbursements for the financial year in question.
- ***Sector Annual Performance Reports*** Some sectors, as part of their SWAps, table Annual Sector Performance Reports at their Joint Reviews. These set out the overall performance of a sector, including aid.

quality

3.63 The annual financial statements are subject to the quality concerns described previously, incompleteness being the biggest problem. The only formally audited statements of aid are the annual financial statements. All other aid reporting is not audited, although past figures may have been subject to audit. The project reporting system spearheaded by Office of the Prime Minister has suffered from compliance problems, and never resulted in consolidated performance information.

3.64 Budget Performance Reports provide aggregate aid information in a useful way, however project information is not broken down into sectors, spending agencies or projects, and only reflects disbursements and not expenditures. Annual Development Cooperation Reports do provide useful comparative information over time and across sectors/donors, but they take a long time to produce and are subject to the data limitations of the Development Management systems discussed above.

3.65 Whilst Sector Performance Reports would represent an important potential vehicle for the discussion of aid performance, these focus more on performance against policy objectives, rather than financial information, and aid.

explanation

3.66 The lack of expenditure reporting overall reflects shortcomings in budget reporting, and not aid management, although for the GOU budget this is likely to be addressed in the coming financial year. In terms of projects, beyond the commitment control system, the absence of a functioning project based reporting system means that consolidation is difficult, although information on disbursements and expenditures should be available from Bank of Uganda data and the DAMFAS.

3.67 Spending agencies have faced limited incentive to report to OPM, as there is no consequence for failure to comply. The incentives to report to the MFPED are stronger, given its custody of budget releases, but beyond some reporting associated with commitment control, the MFPED does not demand significant reporting from central ministries against the budget. This is where the majority of projects aid lies. There is no obvious explanation for this major gap, beyond an historical lack of appetite within the budget department to use the information that budget reporting may provide.

Overall summary and assessment

Box 6: Extent of Aid Capture during the Budget Cycle

Dimension	Extent of capture
On plan	Aid is mentioned in government strategic plans only in very general and aggregated terms. Projections for project and programme aid are integrated into the 3-year macroeconomic framework and projections for sector project aid are provided to agencies in the MTEF, which form part of budget ceilings. Aid projections are also incorporated in national and sector budget strategies. A three year Public Investment Plan sets out project allocations in the development budget, including project aid over the medium term.
On budget	Aid is captured in the annual budget documentation at three levels: • The Budget Speech, which provides a summary of on-budget programme and project aid to government. • The Detailed Budget Estimates of Revenue and Expenditure provide detailed information of project aid in the development budget, and programme and project aid is integrated into the revenue estimates • Ministerial Policy Statements, which are prepared by line ministries, also capture project aid, but in a haphazard way.
On parliament (or "through budget")	In the budget process and PFM cycle Parliament has three main stages of engagement, and aid is incorporated in documentation in all these stages: • First is to review the contents of the National Budget Framework. • Second is to deliberate on and approve of the national budget. • Third is the review of the Auditor General's reports. Since 2003, and the adoption of the Public Financial and Accountability Act, project aid has formally been voted on by parliament, forming part of annual appropriations.
On treasury	All programme aid, including general budget support and sector budget support is disbursed through the Consolidated Fund using the treasury system in its entirety. Recently all accounts for donor projects to government were transferred to the Bank of Uganda, and now form part of the consolidated fund coming under the supervision of the Accountant General.
On accounting	Programme aid uses government accounting systems in full, and expenditures funded by budget support are covered in the accounts of central and local governments. Activities funded by programme aid are not separately identifiable on the expenditure side, as programme aid is only notionally earmarked. Project aid may use government procurement systems, but projects at the centre do not and cannot use the government's accounting systems. Meanwhile many projects submit their accounts for audit late or, use different (donor) financial years, which means that spending agencies' annual accounts prepared for audit do not cover project aid. Some project aid uses local government accounting systems, which are manual.
On audit	Programme aid is captured in the overall report of the Auditor General – both in terms of his audit of Central Government Votes and his audits of local governments. The Auditor General audits donor project accounts individually, however the comprehensiveness is hampered by the fact that not all projects submit accounts, donors do parallel audits, and that the budget does not incorporate all aid to government
On report	In addition to the annual financial statements of spending agencies the following are the main vehicles of reporting on aid: • ***The Project Reporting System*** incorporating project aid, which was spearheaded by Office of the Prime Minister but has failed to take off • ***Budget Performance Reports*** are prepared every 6 months by MFPED and provide aggregate data on grant and loan disbursements relating to projects and budget support. • ***Annual Development Cooperation Reports –*** Each year the MFPED Prepares a report which tries to provide comprehensive data on aid disbursements for the financial year. • ***Sector Annual Performance Reports*** tabled by some sectors as part of their Joint Reviews, set out the overall performance of a sector, including aid

….on plan, on budget and on parliament

3.68 Aid is mentioned in government strategic plans only in very general and aggregated terms. The PEAP includes a Long Term Expenditure Framework which incorporates aid projections, whilst sector strategic plans and their associated financing strategies vary in the degree to which aid is explicitly incorporated. Projections for project and programme aid are integrated into the 3-year macroeconomic framework and projections for sector project aid are provided to agencies in the MTEF, which form part of budget ceilings. Aid projections are also incorporated in Sector Budget Framework Papers, which are prepared by Sector Working Groups. A three year Public Investment Plan sets out project allocations in the development budget over the medium term, and associated donor financing. Whilst the PIP is consistent with the MTEF and closely linked to the budget, it is difficult to link to sector strategies. Given the integration of aid into the budget process, and the participation of cabinet and parliament in the budget process, aid information is well integrated into political process as well. Since 2003, and the adoption of the Public Financial and Accountability Act, project aid has formally been voted on by parliament, forming part of annual appropriations. Previously project aid had only been provided to inform the budget process.

3.69 The framework for capturing aid in planning and budgeting is comprehensive, yet the quality and consistency of aid information and the way in which that information is presented in different plan and budget documents means that its effectiveness in decision making is not maximised. For example it was estimated approximately 20% of aid to government that should be on budget did not appear in the budget in 2006/07,[6] whilst donor aid projections tail off significantly over the medium term, even in the context of donors scaling up aid.

.... on budget execution, report and audit

3.70 General budget support and sector budget support are fully on treasury, on account and on report, and any weaknesses are symptomatic of general government financial management and accounting systems. Beyond monitoring disbursements, there is no tracking of programme aid through the accounting system as any earmarking is notional. As we shall see programme aid has fuelled an increase of funding using local government systems as well.

3.71 Beyond its capture in the revenue accounts, project aid, even if it is on budget, does not use GOU accounting systems during budget execution, although some projects may use government procurement systems, and an aspect of treasury systems as all donor projects to government are now required to open their accounts in the Bank of Uganda as part of the Consolidated Fund, which has improved information on aid flows (as well as liquidity management in the public sector). This is because there is no accounting and reporting system for donor project funds, although a project management module is being developed for the IFMIS. Although project accounts are prepared, donor systems and financial years are often used, and ministries and agencies do not (and are probably unable to) prepare consolidated annual financial statements including donor project funding.[7]

3.72 By virtue of it being on treasury and account, programme aid in all its forms is covered in the overall report of the Auditor General – both in terms of his audit of Central Government Votes and his audits of local governments. The Auditor General should audit

[6] ODI, 2007.
[7] In the 2006 DAC survey on implementing the Paris Declaration it was reported by some donors, in particular the World Bank, that project aid used government budget execution systems, however this is not the case.

donor project accounts individually, as they form part of Parliament's appropriations, and since 2004/05 he has offered an opinion on those projects which have presented his Annual Reports. However this is limited by the number of project accounts available for audit and whether donors have supported an audit of those funds endorsed by the Auditor General. This consequently means that the Parliamentary Accounts Committee does not have access to, and consider comprehensive audited accounts of Government, including aid.

….on local government systems

3.73 In Uganda the Intergovernmental Grant System has been used as a vehicle for using local government systems over the entire planning and budgeting cycles. Programme aid, including general and sector budget support has been channelled to local governments via conditional grants. This grant system has proved a reliable channel of financing and has been a vehicle for donors to provide sectoral budget support, and has allowed some donors move away from stand alone sector project and area based programmes. Project aid directly to local governments and via sector ministries does remain, and is unpredictable. (Local Government issues are further explored in Section 5 below.)

Box 7: Contradictions with the 2006 Survey on Monitoring the Paris declaration

The 2006 Survey on Monitoring the Paris declaration for Uganda reported that 60% of aid to government used PFM systems. The figure from PFM systems is likely to be inflated, largely due to misinterpretation of what is meant by budget execution. Whilst budget support uses government PFM systems in full, no project aid is fully on PFM systems, because it cannot be. The correct figure is more likely to be a lower share of aid to Government (i.e. all programme aid and some elements of project aid) uses government PFM systems. Also the categorisation of Programme Based Approaches appears to mix up basket funding, which is a form of project aid, and sector budget support, which is programme aid.

In addition the monitoring report states that "the government systems for recording aid are working well", the data collected in the division of Labour Exercise for 2006/07 and the medium term and the analysis here appears to contradict this statement. Aid data systems do not appear to capture all aid to government, and there are significant inconsistencies between the data collected by the MFPED – by the Aid Liaison Department from Sectors and by the Macroeconomic Department from donors.

Sources: OECD/DAC, 2007 and Author's analysis.

Themes for further investigation

3.74 The Government of Uganda has been an innovator for putting aid on plan and budget in from the 1990s at both the central and local level. Beyond the use of budget support, progress in putting project aid on budget execution and accounting systems has lagged behind, although this is likely to change. Not all the innovations have been successful, but the Uganda case provides important lessons for other countries in this respect.

3.75 This report further explores two themes where there has been innovation. Section 4 focuses on the capture of aid during budget formulation, with a particular focus on the development budget, the sector based MTEF, and the effects of the more recent integration of projects into budget ceilings. Section 5 examines the interaction of aid and local government systems, where sector and general budget support has been used to expand resource flows to local governments and the use of those systems.

4. Capturing Aid During Budget Formulation

Budget formulation, the MTEF, sectors and the quality of aid data

4.1 This section focuses on the interaction of the budget formulation process and both elements of good practice and the problems encountered. Three strands of reform can be observed:

- The first set of reforms in the early 1990s were largely motivated by the need to integrate the planning process with the preparation of the development budget, bearing in mind that the vast majority of public investment was being funded by donors.
- A second set of reforms started with the introduction of the MTEF in 1997 and were focused on the sector and sector working groups. The development of sector strategies and development plans, sector budget framework papers, and sector review processes were all related.
- A third set of initiatives emanated from concerns on the reliability of aid data – this started with initiatives to discount aid projections, and also has resulted in the collection of aid data directly from donors as well as from sectors.

4.2 In this section we shall examine each of these streams of reform in more detail, identify good practice, and examining the lessons that can be learned.

Early reforms to planning and the development budget

4.3 In Uganda reforms to the planning system and the development budget were a key innovation in putting aid on budget. In the early 1990s national development plans were largely wish lists, whilst the development budget was unreliable, projects were largely initiated by donors, and the government was having problems meeting its counterpart funding requirements to donor projects.

4.4 After reviews to the planning process in 1991 a series of reforms were introduced with the following three basic principles: "Donor resources should be allocated on the basis of Government, not donor, policies and priorities; all resources, including aid, should therefore be allocated through the planning and budgeting systems; and the plan should be integrated with the budget".[8] They involved:

- The introduction three year rolling Public Investment Plan (PIP) prepared annually consistent with aid and macroeconomic projections;
- The annual Development Budget incorporating estimates of aid consistent with the PIP; and
- The introduction of the Development Committee to screen project proposals and review the development budget proposals.

[8] Alan Whitworth (forthcoming)

Box 8: A Project Budget Generated Using the Development Management System

DRAFT ESTIMATES OF DEVELOPMENT EXPENDITURE

2006/07

Vote: 008 - FINANCE, PLANNING & ECONOMIC DEV.

Project Code: 0031 [008/08/OTHR/98]
Project Name: CORD.OF MSE & MICROFIN.OUTREACH

		2005/06 Budget		2006/07		
		Donor (US$ m)	Local (Sh 000s)	Donor (US$ m)	Local (Sh 000s)	Total (Sh 000s)
Expenditure						
211101 General Staff Salaries			61,800		61,800	61,800
211102 Contract Staff Salaries			5,000		5,000	5,000
211103 Allowances			10,000		10,000	10,000
221002 Workshops and Seminars			15,000			0
221003 Staff Training			6,000			0
221008 Computer supplies & IT service			8,000			0
221011 Printing, stationery, binding			10,000		10,000	10,000
222001 Telecommunications			7,000		3,500	3,500
223005 Electricity			1,500			0
223006 Water			1,200			0
224002 General Supply Goods &services		0.2900	2,006,500	2.5873	2,563,870	7,376,324
225001 Consultancy Services-Shortterm			100,000		50,000	50,000
227004 Fuel, lubricants and oils			10,000		10,000	10,000
228002 Maintenance - Vehicles			20,000		5,000	5,000
TOTAL EXPENDITURE		0.2900	2,262,000	2.5873	2,719,170	7,531,624
TOTAL EXPENDITURE without tax		0.2900	2,262,000	2.5873	2,719,170	7,531,624
Funds Secured						
G-1402-MSE POLICY UNIT-NORWAY	Budget	0.2900		0.1368		254,530
	Disbursed*	0.2869				
G-9919-UNSPECIFIED AGR-GERMANY	Budget			2.4505		4,557,924
	Disbursed*					
U-0000-GoU BUDGET-GoU	Budget		2,262,000		2,719,170	2,719,170
	Release*		3,070,048			
TOTAL SECURED FUNDS		0.2900	2,262,000	2.5873	2,719,170	7,531,624
TOTAL SECURED FUNDS without Tax		0.2900	2,262,000	2.5873	2,719,170	7,531,624

4.5 To facilitate an integrated public investment plan and annual development budget was the development management system (DMS) which was developed and introduced in 2004 It is still in use today (although it is due to be replaced). This acted as an aid database, and the tool for generating the PIP and development budget. Staff in the Aid Liaison Department entered new aid agreements into the DMS, and disbursement data, whilst sector desk officers in the Budget Directorate entered data on the domestic development budget and aid allocations to those projects (Box 8 above gives an example project budget in the Budget Estimates for 2006/07 generated by the DMS). Whilst the development budget only includes projects administered by government votes, the DMS is more comprehensive, capturing aid to parastatals as well as programme aid instruments.

4.6 Another key innovation was the Development Committee which was formed in 1991 to oversee the planning process, and in particular had responsibility for vetting new project proposals and reviewing development budget submissions annually. Early on in the reform process there was significant political backing for the process, with proclamations from as high as the President that donor projects needed to be approved by the planning ministry.

4.7 These reforms were reinforced by the merger of the finance and planning ministries in 2002, which helped support the integration of planning and budgeting. This benefited the Development Committee by ensuring that departments from the former Ministry of Finance were also involved. It also meant there was a unified aid unit – the Aid Liaison Department, and a Budget Directorate made up of sectoral desk officers responsible for all aspects of the planning and budgeting cycle including recurrent and development.

4.8 The integration of the development budget and the planning system, and aid within it had several benefits, when working best in the late 1990s and early this decade:

- the comprehensiveness of information on donor aid improved significantly and the fact that this was presented in budget documentation improved transparency significantly;
- counterpart funding requirements were better integrated into the development budget which reduced disruptions to aid flows;
- the development budget became a more reliable guide for expenditure, in part because counterpart requirements were better budgeted for, and in part because development budget estimates were prepared within realistic budget ceilings; and finally
- the Development Committee provided a central mechanism for scrutinising and steering project proposals, and a collective ability to say “no” to donors. This was especially helped by strong political and managerial support early on.

4.9 A key shortcoming of the early reforms to the planning and development budget, and the Development Committee was that it has never been able to steer the direction of new aid proposals within or across sectors – in short it has not been effective as a strategic planning tool. The Development Committee was only really able to assess projects proposals on their own merits once they had been prepared, and was not able to influence the direction of future aid proposals in the context of GOU policies and strategies.

4.10 In addition some of the early benefits have been eroded over time. The Development Committee no longer functions well as a mechanism for approving new aid proposals or reviewing development budget submissions. And, as described later, the comprehensiveness and quality of aid data in the development budget has been brought into question. This in part is because managerial attention in the MFPED was drawn towards managing other types of aid, most importantly budget support, and the political importance lent to ensuring coherence in donor projects has appeared to diminish.

The MTEF, sector working groups and integrated ceilings

4.11 The introduction of the MTEF, and associated reforms in 1997 was motivated to address the shortcomings in strategic planning and resource allocation. It was geared towards improving the coherence of resource allocations across sectors and across recurrent and development budget. A new strategic phase of the budget process was introduced where Cabinet (and later Parliament) was asked to consider medium term resource allocations to sectors and institutions over the medium term. Aid was fully integrated into the MTEF from the outset. Programme aid contributed towards domestic government expenditures and project aid was presented as part of Ministry (Vote) and sector allocations as shown in Box 9 below.

Box 9: Project Aid as Presented in the MTEF (UGS Billion)

	SECTOR/VOTE	Wage	Non-Wage Recurrent	Domestic Dev	Donor Project	Total excl. Donor Project	Total incl. Donor Project
		FY 2006/07 Approved Budget Estimates					
ROADS AND WORKS							
016	Works and Transport	3.33	2.63	76.27	285.61	82.23	367.85
016	Trunk Road Maintenance	-	73.88	-	0.74	73.88	74.62
501-850	District Road Maintenance	-	18.31	-	-	18.31	18.31
501-850	Urban Road Maintenance	-	4.10	-	-	4.10	4.10
	SUB-TOTAL ROADS	**3.33**	**98.93**	**76.27**	**286.35**	**178.53**	**464.88**
AGRICULTURE							
010	Agriculture, Animal Industry and Fisheries	2.41	5.53	7.08	48.88	15.03	63.91
142	National Agricultural Research Organisation (NARO)	-	2.84	17.20	5.35	20.04	25.39
501-850	District Agricultural Extension	3.88	3.16	-	-	7.04	7.04
501-850	National Agricultural Advisory Services (Districts)	-	-	37.13	1.53	37.13	38.66
152	NAADS Secretariat	-	4.46	5.35		9.81	9.81
155	Uganda Cotton Development Organisations	-	1.20	-		1.20	1.20
160	Uganda Coffee Development Authority	-	0.58	-		0.58	0.58
	SUB-TOTAL AGRICULTURE	**6.29**	**17.78**	**66.75**	**55.76**	**90.82**	**146.58**

Source: MFPED, Budget Call Circular 2007.

4.12 As mentioned in Section 2, sectors and sector working groups are central to MTEF process in Uganda, and Sector Working Groups are responsible for managing the budget process at sector level (see Box 10).

Box 10: Sectors and Sector Working Groups in Uganda

A Sector in Uganda is made up of those Ministries, Departments and Agencies and Local Governments or elements of those MDAs involved in a certain function of government, whether education or accountability. A sector strategy is a strategic plan covers all these actors. Meanwhile a sector MTEF or budget combines all the relevant central MDA budget allocations with grants to local governments for that sector. Therefore a sector MTEF or report is different from a report for an individual ministry, for instance, although there is often a lead ministry in a sector.

Sector Working Groups (SWGs) are central to both the sector review processes and the planning, MTEF and budgeting process. They are made up of representatives of spending MDAs within the sectors and other stakeholders from civil society and donors. SWGs are required to prepare contributions for the budget framework paper, which set out the medium term budget strategy for the sector. These contributions set out measurable performance targets for the sector, and resource allocations between MDAs in the sector. These groups are required for all sectors whether or not they have fully fledged sector review processes. Sector working groups were also involved in the PEAP revision process, preparing papers which were considered during the preparation of the 2004 PEAP (Some sector working groups were divided into smaller components in that process).

Source: Williamson, 2006.

4.13 Aid is explicitly incorporated into the strategic phase of the budget process in national and sector Budget Framework Papers. The national BFP, which is the overall GOU medium term budget strategy document, consolidates sector information from sector BFPs with the Macroeconomic Framework.

4.14 Different forms of aid are integrated into the MTEF and Budget Framework Paper in different ways. At the fore of the MTEF-based reforms was the move towards programme aid – debt relief, sector and general budget support. In 1998 when Uganda first received debt relief, the Poverty Action Fund was developed as a mechanism for notionally earmarking debt relief and other programme aid resources to priority programmes in the PEAP. The features of the Poverty Action Fund are described in Box 11 below, which include prioritising budget allocations, and protecting budget disbursements during the financial year. This has proved a successful mechanism which shows the sources of programme aid, and its notional allocation in the budget, but does so in a way which ensures government systems are used in full.

Box 11: The Poverty Action Fund

The programmes in the Poverty Action Fund (PAF), which was formed in 1998, represent the Government of Uganda's pro-poor expenditures. It is a virtual poverty fund which represents a subset of public expenditures in the budget which can be tracked through budget formulation and implementation.

Definition of PAF Programmes: At the inception of the PAF they were a selection of priority programmes from the 1997 PEAP. In 2000 a definition of pro-poor expenditures was agreed which set out criteria for new programmes to be included in the PAF. These were that programmes:

- must be in the PEAP;
- must be directly poverty-reducing;
- must deliver a service to the poor.

In addition a further requirement was that a programme must have a well-developed strategy or plan.
Listed below are the original PAF programmes and the additional programmes included in the PAF since 1998. Since 2000, new PAF programmes have had to meet the PAF criteria.

Original PAF Programmes in 1998	**Additions between 1998 and 2004**
Primary education; Primary healthcare; Water and sanitation; Agricultural extension; Rural roads; Monitoring and accountability	District and referral hospitals; Adult literacy; Wetlands Strategic exports (cotton, coffee, etc.); Land Microfinance and restocking; Urban Roads; Community Rehabilitation; HIV/AIDS orphans; Reduction of court-case backlog; Local Government Development Programme

The PAF "Budget" Whilst allocations to PAF programmes are integrated within the MTEF, a separate PAF budget is presented in budget documentation. This is made up of the PAF Resources and PAF Expenditures

- PAF Resources: This sets out the contribution of GOU own resources and programme aid which is provided in support of PAF programmes. This includes HIPC debt relief, sector budget support, and budget support to the PAF in general. This earmarking is purely notional, as there is not tracking of budget support resources through the expenditure cycle.
- PAF Expenditures: This sets out the allocations to PAF programmes, which are a subset of MTEF Allocations.

PAF expenditures in total equal PAF Resources. Originally the GOU committed to ensuring that increases to HIPC debt relief and budget support earmarked to the PAF resulted in equivalent increases in the PAF budget, but now the GOU only commits to maintaining the PAF budget as a share of the total GOU budget.

Protection of Disbursements: Releases to PAF programmes, which are protected, were reported on in PAF quarterly reports until 2000; since then they have been reported in half- yearly budget performance reports against the PAF budget. Disbursements to PAF programmes are protected. Local Governments, to which approximately ¾ of PAF resources are channelled, report quarterly on expenditures and activities resulting from the grants they receive. A share of the PAF budget, originally 5%, is allocated to accountability institutions, line ministries and local governments for the monitoring of PAF programmes.

Emerging Concerns: Whilst there have been additions to PAF programmes, no programme has been withdrawn from the PAF, which implies that the definition of pro-poor spending has been static. There are concerns that this is leading to inefficiency and rigidities in budget formulation and execution. The narrow definition of pro-poor excludes programmes which might indirectly improve the lives of the poor, whilst the early bias towards social services in the PAF has remained, despite efforts to increase attention to the productive sectors.

Source: Adapted from Lister et al, 2006. Section on PAF Budget added by Author.

4.15 In addition, all sectors include projections for donor project aid in their BFPs, at an aggregate level, at least. This provides the basis for aggregate information on project aid as presented in Macroeconomic Framework and the MTEF (see Box 9 above).

4.16 In 2003 a further aspect to the budget process was added, which had clear implications on budgeting for project aid. With the Public Finance and Accountability Act in 2003, project aid became part of budget appropriations – before they had only been presented to parliament. The Ministry of Finance went further by integrating projects into hard budget ceilings, and the implications were clearly set out in the 2003 partnership principles.

> *Sectors will have to budget within an overall ceiling set by the Government which will include all donor projects. This will be a hard budget ceiling, implying that an increased level of project support expenditures will have to be matched by lower GOU budget expenditures." (MFPED 2003)*

4.17 The motivation was twofold – to encourage Cabinet and Parliament to make decisions on overall resource allocation, and to reduce aid dependency and the budget deficit over the medium term by managing down project aid. This reflected concerns that aid might be crowding out private sector growth.

4.18 Box 12 shows the requirements set out in the Budget Call Circular for the 2007/08 budget for incorporation of projects into sector budget framework papers. This not only explicitly mentions integrated ceilings, but another dimension – the need for sectors to ensure that projects are aligned with policy – in terms of the PEAP but also the sector.

Box 12: External Development Projects in Budget Framework Papers

As you may all be aware, donor projects are integrated in the Medium Term Expenditure Framework and form part of the sectoral allocation ceilings. Additionally, all donor and Government of Uganda funded projects are supposed to be fully discussed at the sectoral level to ensure that the projects meet the agreed criteria to be considered for inclusion in the MTEF as indicated below.

- Consistency with budget strategy (integration)
- Consistency with the PEAP
- Consistency with debt strategy
- Consistency with deficit strategy
- Sector Working Group Approval
- Development Committee Approval

As a requirement for the BFP for 2007/08, all sectors are requested to provide a comprehensive list of the existing stock of projects and pipeline projects in the Medium Term and Expenditure Framework period.

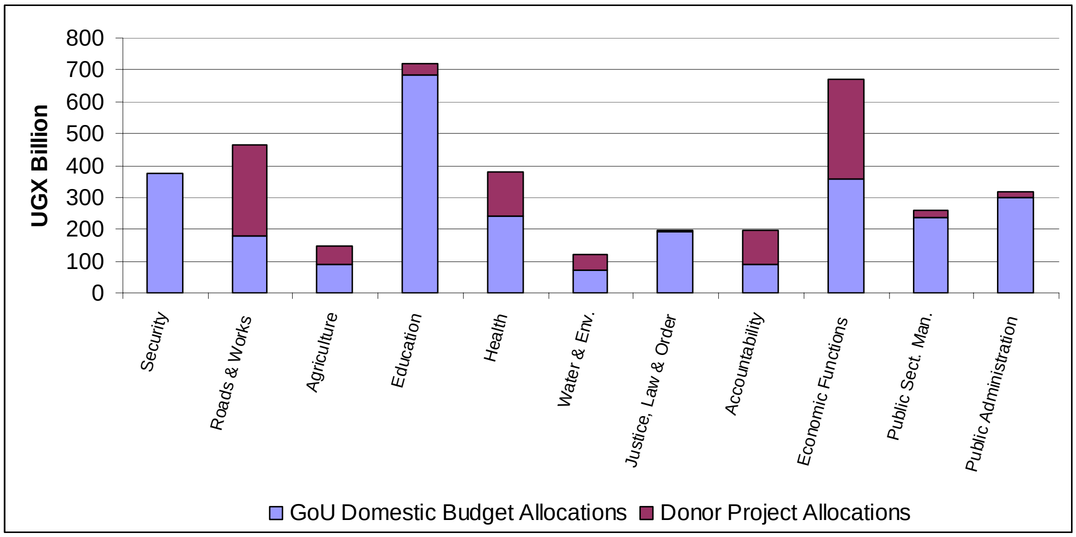
Source: MFPED, Budget Call Circular 2007.

4.19 The requirements in the Budget Call Circular also intimate some of the shortcomings that have been observed in the capture of projects in the budget. Firstly that project aid should be aligned with the PEAP and the sector budget strategy, and secondly that Sector Working Groups should be active in ensuring that this is the case. Some ministries and donors have worked together to ensure project aid is increasingly aligned to sector policies and strategies in the context of SWAps, but it is unclear whether Sector Working Groups have ever taken a particularly active role in vetting new project proposals once they have been prepared. Increasingly, too, it appears that projects enter the budget without Development Committee approval. Ultimately the focus of Sector Working Groups has been on the budget process, especially as the GOU budget has been an increasingly important source of funding, and MFPED has also paid less attention to enforcing Development Committee scrutiny of project aid.

4.20 Meanwhile, the inclusion of information on project aid in sector budget frameworks is at best haphazard, as described in Section 3 above. Whilst all sectors provide aggregate information on project aid, some sectors give breakdowns of projects, others do not. When project information is given, this is usually presented as a list, not in a way which facilitates strategic resource allocation. This is largely due to the fact that the development budget itself has always remained a project list. The haphazard presentation of project aid data is in part due to the vagueness in the terms of reference for Sector Working Groups issued by the MFPED, combined with varying capacities of those groups.

4.21 Conversely, in the national Budget Framework Paper, information is aggregated in a standardised way by the MFPED. The fact that project aid is presented by sector and spending agency in the MTEF in the National BFP alongside domestic budget allocations is an important element which does facilitate strategic resource allocation of domestic resources across sectors and between institutions within a sector. Figure 4 below shows domestic allocations and project aid. If Cabinet and Parliament were shown only domestic allocations (the lower section of each bar) this would show a very different picture to actual spending across sectors, which comprised of both domestic allocations and project allocations (the upper section of each bar).

Figure 4: 2006/07 Budget – GOU Resources and Project Aid



Source: MFPED, Budget Call Circular 2007.

4.22 This also implicitly recognises that different sectors are likely to have different mixes of aid modalities, and that some will be more reliant on project aid than others.

Institutional incentives and the quality of aid data

4.23 The final set of recent initiatives have been a reaction to concerns over the quality and consistency of aid data, which ultimately governs the effectiveness of integrating aid into budgetary documents – whether the annual budget or the national Budget Framework Paper. The realism and reliability of aid information relies on transparency of the institutions involved – whether donors, line ministries or the MFPED.

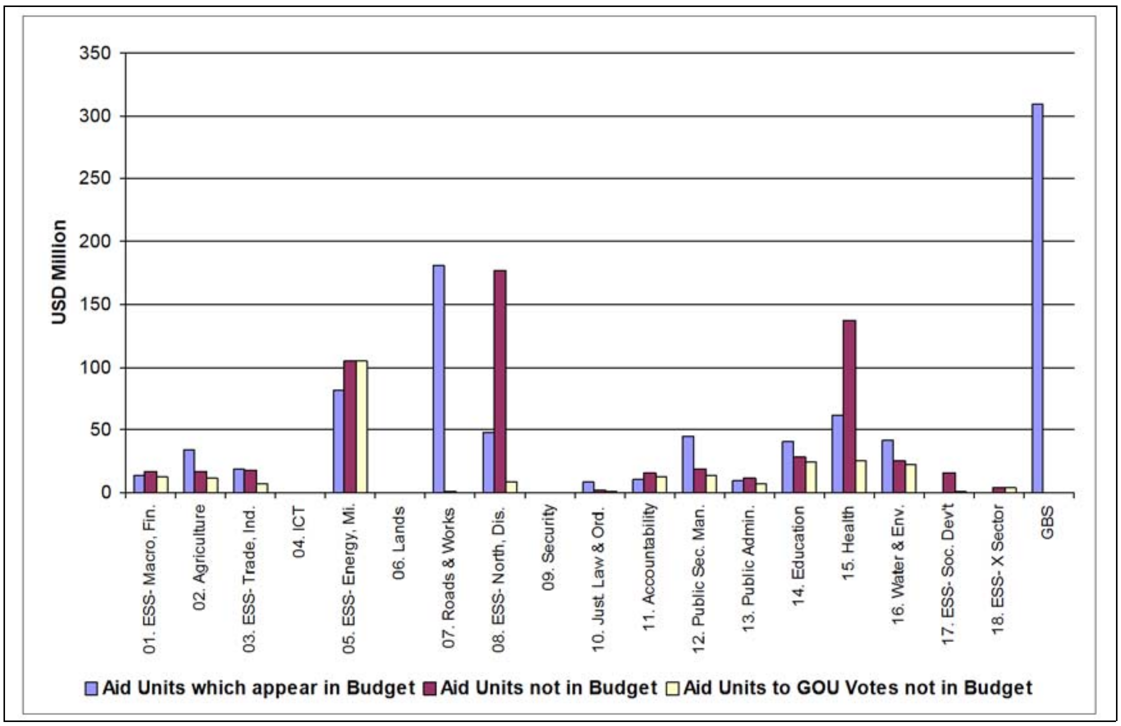
4.24 It is important first to examine the quality of data around the budget process and the Development Management System. The Aid Liaison Department was responsible for managing the aid database and entering new aid agreements and disbursements against those agreements. Meanwhile the line ministries, during the budget process, provide information on past expenditures incurred using donor funds, and future projections of expenditures for each project, broken down by line item over the medium term. This data is supposed to be reviewed by sector desk officers in the budget directorate of MFPED and presented to the Development Committee for review, and then entered into the Development Management System by them, once agreed. The budget process therefore relies on information from line ministries. This presents some incentives challenges.

4.25 Early on, prior to the integration of project aid into the MTEF there was an incentive to keep donor projects running, even if they had closed, so that votes would continue to receive "counterpart funding" from the domestic development budget. This was easily done as donors often failed to inform the MFPED when projects closed, and rarely checked the accuracy of information in the PIP.

4.26 Following the integration of projects into MTEF ceilings this presents a completely different set of incentives for line ministries. In theory, an increase in project aid would actually result in a decrease in sector allocations in future, and so there is a disincentive to include new projects in the MTEF, and an incentive to underestimate future disbursements from existing projects.

4.27 From the donor perspective, the integration of projects into sector ceilings raised the prospect of new projects being rejected by the government, and it appears that this has driven more aid off budget. This manifests itself in incentives to increase aid to NGOs and parastatals (which does not appear on the MTEF) and not to declare all aid to government in full. Figure 5 shows for 2006/07 aid (projects, basket funding or programme aid) which appeared on the budget, aid which did not appear on the budget, and of that a significant quantity aid to GOU votes that does not appear on the budget but legally should.

Figure 5: On and Off Budget Aid in 2006/07

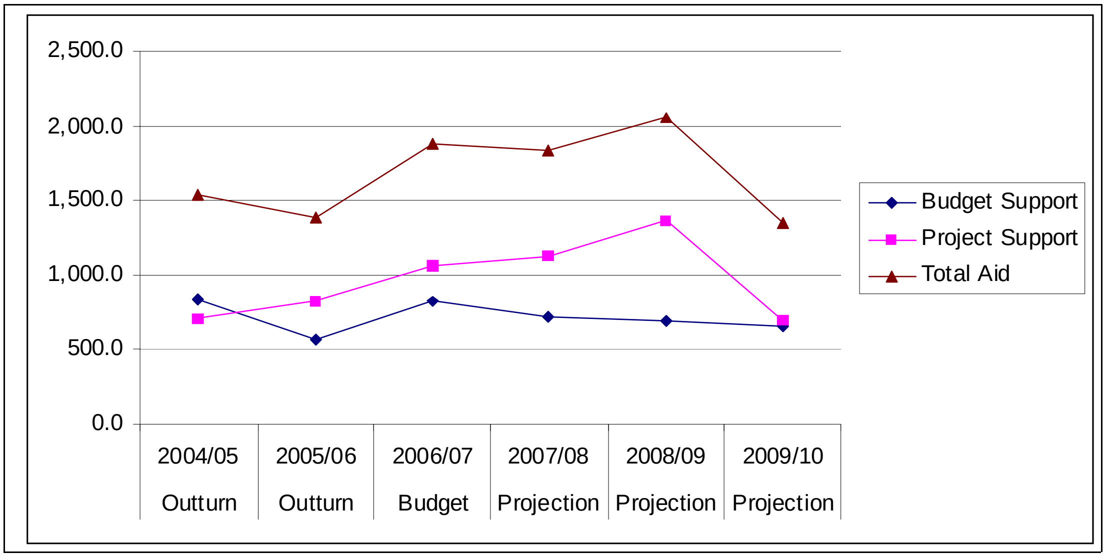


Source: ODI, 2007.

4.28 The second problem with the data from the DMS is that it is based on donor agreements and commitments. This has two implications – the first is that aid for the budget year in question is likely to be over-estimated, as not all donors are likely to disburse in full. Secondly, over the medium term aid projects tailed off sharply – this does not reflect the fact that new projects and programmes will come on stream over the medium term.

4.29 As the reliability of aid data around the budget became apparent, the Macroeconomic Department of the MFPED, responsible for overall projections of aid took two initiatives. The first was to discount donor projections of aid for the forthcoming budget year to counter the problem of donor commitments not being realised; and the second was to start collecting aid data directly from donor institutions to counter the problems of comprehensiveness and consistency of donor information, and requesting information of any future aid programmes in the "pipeline" but not yet committed too. Whilst the PIP still only includes donor commitments the MTEF projections now incorporate likely future aid flows – however project aid still tails off significantly in final year of the most recent medium term budgetary framework as shown in the chart below.

Figure 6: Aid Projections in the Medium Term Budgetary Framework (UGS Bn)



Source: MFPED, Budget Call Circular 2007.

4.30 Efforts are under way to improve aid data, but the MFPED now has a problem of multiple data systems – with the DMS and the Macroeconomic Department's Data as well as the DMFS managed by the Treasury. A strategy is clearly needed to establish, at the very least, mechanisms to link and ensure the consistency of different aid databases.

Key Lessons

4.31 The Uganda case of putting aid on budget has many lessons, both positive and negative. On the positive side:

- Integrating project aid into the development budget, alongside domestic budget allocations, thereby improving the realism of domestic and donor budget allocations.
- The use of the development committee as a mechanism for screening new project proposals and development budget proposals early on in the reform.
- Facilitating strategic resource allocation Presenting project aid alongside domestic recurrent and development budget allocations in the MTEF to facilitate strategic resource allocations across and within sectors
- The use of the Poverty Action Fund as a virtual mechanism to present sector budget support in the budget, and address fiduciary concerns with respect to budget implementation.

- The discounting of aid commitments in the budget year, and incorporating projections and not aid commitments in the MTEF.

4.32 However, whilst each of the three streams of reform to improving the capture of and alignment of aid to plans and budgetary objectives, together they have not formed a coherent system. A key problem has been the fact that project-based budgetary systems have not changed over time to evolve with the MTEF and sectoral processes. This is largely because it was widely perceived that budget support would become the dominant modality, but project aid has remained and is now growing again. Another implication of this is the lack of thinking that has gone on with respect to how projects can use domestic budget execution systems. In addition the Uganda case highlights the need for managers to keep on top of mechanisms such as the development committee, even once they are well established. Meanwhile, although the integration of sector ceilings was well intentioned, the evidence suggests that it has had the perverse incentive of driving aid off budget – any system of putting aid on budget needs to take into account the incentives faced by institutions and individuals.

5. Aid Capture and Local Government Systems

Introduction

5.1 This section looks at another area where the Government of Uganda has been innovative in putting aid on budget. It examines the use of the intergovernmental transfer system as a mechanism for channelling general and sector budget support to local governments, thereby using local government budgeting and accounting systems, and consequently helping to build systems and institutional capacity at that level. This has important lessons, as often donors and governments are reluctant to channel large volumes of resources to local governments using government systems, and instead use parallel mechanisms such as common basket funds.

From sector projects to conditional grants via the Poverty Action Fund

5.2 The policy and legal framework for decentralisation was developed in the 1990s, and fiscal decentralisation was first piloted, before the recurrent budget was decentralised to all district local governments in 1997/98 financial year. However donor support to basic services remained fragmented and administered through projects by central government ministries, albeit with increasing efforts to engage with the new decentralised structures. In 1998/99, with the introduction of debt relief, it was agreed that the additional funding be channelled to key basic services which were priorities of the 1997 Poverty Eradication Action Plan via the Poverty Action Fund, as described in Section 4 (see especially Box 11). The bulk of these services were the mandate of the new local governments. The MFPED decided to channel these resources via conditional grants earmarked to specific local government services such as primary education, rural roads and primary healthcare. Conditional grants were one of the three channels of intergovernmental fiscal transfers legally provided for in Uganda, and fitted well with the new MTEF process based around sector working groups, and the ongoing introduction of sector wide approaches.

Box 13: Conditional Grants in the Education Sector Budget/MTEF

	SECTOR/VOTE	Wage	Non-Wage Recurrent	Domestic Dev	Donor Project	Total excl. Donor Project	Total incl. Donor Project
		FY 2006/07 Approved Budget Estimates					
EDUCATION							
140	Uganda Management Institute	-	0.40	-		0.40	0.40
013	Education and Sports (incl Prim Educ)	8.64	38.62	28.04	22.74	75.30	98.03
136	Makerere University	-	34.14	0.16	14.01	34.30	48.31
137	Mbarara University	4.06	2.37	0.41	0.33	6.84	7.17
139	Kyambogo University	7.87	4.93	0.28	-	13.08	13.08
132	Education Service Commission	0.51	2.18	0.05	-	2.74	2.74
138	Makerere University Business School	-	4.19	0.50	-	4.69	4.69
149	Gulu University		3.12	1.20	0.13	4.32	4.45
501-850	District Primary Educ incl SFG	342.50	32.83	16.42	-	391.74	391.74
013	District Secondary Education	97.70	22.83	-	-	120.53	120.53
501-850	District Tertiary Institutions	16.70	8.65	-	-	25.35	25.35
501-850	District Health Training Schools	2.56	1.77	-	-	4.33	4.33
	SUB-TOTAL EDUCATION	**480.53**	**156.02**	**47.05**	**37.21**	**683.60**	**720.81**

5.3 Although it was not an explicit intention early on, the PAF provided a vehicle for the provision of aid in support of basic service delivery. From 1998/99 donors started to provide sector budget support towards PAF programmes or the PAF overall, and the MFPED was able to allocate these resources as additional funding for conditional grants. This accelerated the increases in resources to local governments.

5.4 The MFPED made commitments to ensure accountability and transparency of Poverty Action Fund programmes. A key commitment of the Poverty Action Fund was that these resources would be disbursed in full during the budget year. In 2000 a planning and reporting system was developed for PAF funded conditional grants which added an extra degree of fiduciary assurance. Conditional grants were no longer disbursed automatically, but annual work plans and signed letters of understanding were required before the MFPED would commence disbursements, and subsequently disbursements were only made if local governments had complied with reporting requirements. In addition to the requirements of the PAF, the MFPED was supporting improved budgeting through promoting local government budget framework papers. These initiatives all provided assurance to donors that local government systems were being strengthened, and accountability for funds sought through domestic systems, which in turn facilitated more donors to provides sector and general budget support.

From area-based programmes to the Local Development Grant

5.5 Another important innovation, from 2000, was the Local Government Development Programme (LGDP), which developed a funding mechanism that not only uses local government systems, but also provided incentives for local governments to improve those systems. The core of the LGDP is the Local Development Grant, which is a discretionary grant for local investments channelled to local governments using the grant system. To qualify for the grant, local governments are required to meet a series of governance criteria. They also have the possibility of qualifying for rewards if they perform well in an annual assessment of minimum conditions and performance, as described in Box 14 below.

Box 14: Uganda's Local Development Grant

All local governments have access to a discretionary local government grant, but their access and level of funding is dependent on the annual local government assessment, as follows:

a. Local governments are assessed annually against minimum conditions and performance benchmarks related to areas such as planning, budgeting, financial management, engineering capacity, which are based on the legal framework for local governments.

b. Those local governments which do not meet minimum conditions do not access the local development grant. However they do continue to access a capacity building grant enabling them to upgrade their performance.

c. The best scoring local governments in the assessment receive 10% greater allocation in the Local Development Grant.

This framework has provided a strong incentive for local governments to establish basic budgeting and financial management capacity and performance.

5.6 At the time the LGDP was introduced, other donor aid to local government was scattered, and dominated by traditional area-based programmes, which had proved ineffective at building local government institutions, and resulted in an inequitable distribution of resources across the country. Once the LGDP and associated mechanisms had been established, donors were encouraged to use sector budget support to fund the local development grant. This again allowed the LGDP to be expanded countrywide, and reduced the fragmentation of donor support. This not only ensured a common set of institutional incentives were being applied across local governments, but also a more equitable distribution of resources across local governments, and an increase of donor resources targeted to local governments using local government systems. In the process, substantial amounts of aid moved on-budget and on-treasury.

The effects on local government budgeting and PFM

5.7 A common argument for donors not to channel funds to local governments via government systems is the weaknesses in those systems. In the late 1990s, LG systems in Uganda were very weak too, but the risk was taken to use those systems. What were the effects of using government systems on the strength of those systems?

5.8 The requirements associated with Poverty Action Fund conditional grants, and the requirements to prepare BFPs *demanded* capacity from local governments, and provided them with a clear incentive to do so – accessing funds for service delivery. Meanwhile the LGDP performance assessment process, especially early on, gave administrations a clear incentive to ensure basic financial management and accounting capacity was in place and that legal requirements for the same were complied with. For example there were real implications if councils did not approve budgets, prepare annual financial statements in accordance with the law, and employ qualified finance officers. Combining the use of government systems with incentives to upgrade capacity has undoubtedly helped to strengthen local budgeting systems, and other institutional capacity. Nevertheless, there remain significant weaknesses in core areas of public financial management in Local Governments, including procurement and cash management.

5.9 It is important to note that conditional grant transfers, with disbursement protection from the PAF, have also been a reliable source of funding for basic services. In-year disbursements can be erratic, but over the course of the year local governments usually receive close to their full grant allocations. This contrasts to donor project aid, which still occurs via sector ministries and directly from donors, which is highly unreliable.

5.10 However there have been some negative aspects from the proliferation of conditional grants. Arguably they reinforce accountability of administrations to the centre rather than to councils and their constituents. Local autonomy has been undermined, with 77% of transfers tied to sectors in 2006/07, with the majority of the rest being spent on local government administrations. Over time the number of conditional grants has multiplied and now a local government can typically be receiving over thirty conditional grants funding different aspects of service delivery, with twenty of those grants requiring reports. This has also placed an administrative burden on local authorities. The potential detrimental effects of the reliance on conditional grants and fragmentation of financing were observed early on, and the 2002 Fiscal Decentralisation strategy was intended to rationalise the grant system, planning budgeting and reporting systems in local governments as described in Box 15.

5.11 Although well conceived, the implementation of the FDS has been slow since its adoption. It has proved far more difficult to streamline the grant system than it was to introduce it. It is particularly difficult to change the vertical relationships between line ministries and local governments that the grants introduced. Although the intention was to streamline the grant system to one grant per sector department in the local government, they remain as separate grants in the central government budget, and they have continued to proliferate. Many sector ministries have opposed the introduction of flexibility to recurrent grant allocations, which allows local government to reallocate funding between conditional grants. The FDS involved replacing the grant-based workplans and reports, to a consolidated reporting process based on a single local government annual workplan and budget for all local revenues and expenditures. However many line ministries have continued to demand their own reports from local governments, in addition to those relating to the FDS.

Box 15: Elements of The Fiscal Decentralisation Strategy

The Fiscal Decentralisation Strategy (FDS) set out a framework for increasing the autonomy of local governments over time, improving the effectiveness of local service delivery, and streamlining the mechanisms for financing local governments. In brief the FDS involves:

- Moving towards an equitable formula-based allocation of all government grants.
- Streamlining of conditional grants, reducing the number of grants to one recurrent and one development grant per sector, with performance parameters and input conditions agreed annually. In addition banking and accounting systems were to be streamlined.
- Unifying planning, budgeting and reporting requirements across grants, re-focusing them on the budget as a whole rather than individual grants. Grants were to fund the government recurrent and development budgets alongside other revenues, which local governments would plan for and report against as a whole.
- Giving flexibility in the recurrent budget, allowing local governments to reallocate up to 10% of conditional grants across sectors. The Local Development Grant was identified the source of flexibility in the recurrent budget.
- Developing an Incentive Framework, broadening the LGDP assessment to cover sectors as well.

Key lessons

5.12 The Uganda case demonstrates firstly that capacity can effectively be built whilst using the inter-governmental transfer system and local government systems, even from a very weak starting point. It also demonstrates that strong government initiative has helped bring aid on both budget and financial management systems in local governments – this has meant that common funds are far less prevalent in Uganda than other similarly aid dependent countries (e.g. Tanzania, Mozambique).

5.13 The following lessons can be drawn:

- Firstly is the importance of the government developing a clear and transparent fiscal transfer system, where grants to local governments are clearly identifiable in the budget.
- Secondly is the need to address donor fiduciary concerns directly by developing initiatives which ensure transfers are protected and can be tracked, whilst strengthening local government budgeting, accounting and reporting systems.
- Thirdly demanding capacity from local governments helps build capacity, and this can be done by enforcing existing systems, and providing explicit incentives through initiatives such as the LGDP assessment.

5.14 Yet it also shows that a fragmented government system can have a detrimental effect just like fragmented projects, and increase transaction costs. These costs need to be weighed up against the benefits of using earmarked sectoral transfers as a means of tracking resources to basic services.

6. Conclusions and Recommendations

6.1 In the last two sections we have drawn out some elements of good practice from the Uganda case, and important lessons. Uganda has undoubtedly been an innovator in putting aid on budget, and using aid information to facilitate strategic decision making, and using the inter-governmental transfer framework and local government budgeting and accounting systems.

6.2 Firstly it is important to highlight the key positive lessons from the Ugandan experience, from which other countries can learn:

- Integrating project aid into MTEF and budget documentation helps improve the comprehensiveness and strategic nature of decision making in the budget, whether or not parliament appropriates aid.
- The use of virtual funds, such as the Poverty Action Fund as windows of the budget which debt relief and sector budget support can support, helps address donor fiduciary concerns with respect to budget implementation, whilst ensures that aid uses government budget systems in full.
- Instead of creating parallel mechanisms through projects and basket funds, sector budget support can be channelled though a governments' intergovernmental transfer system in support of local service delivery. This helps build local government budgetary and service delivery systems, and donor fiduciary concerns can be addressed through tracking resources via the transfer system, and building local systems.
- Whilst aid data can be improved, Ministries of Finance can improve the realism of their own aid projections in the budget process by discounting of aid commitments in the budget year, and assuming aid does not tail off over the medium term.
- Simple and transparent innovations, which don't require significant capacity to manage, often are the most successful.

6.3 However Uganda still falls far short of having a coherent and effective aid management system. There are problems of reliability of aid data and it is clear that beyond the budget, project aid does not use government systems, and falls through the gaps of the accounting and audit cycle. In addition some of the early gains have slipped as management in the Ministry of Finance has failed to keep on top of systems once they have been established. The Uganda case also demonstrates the importance of understanding the underlying incentives faced by institutions in putting aid on budget.

6.4 Yet it also shows that a fragmented government system can have a detrimental effect just like fragmented projects, and increase transaction costs. These costs need to be weighed up against the benefits of using earmarked sectoral transfers as a means of tracking resources to basic services.

6.5 Many of the shortcomings have now been explicitly acknowledged by the MFPED and there appears to be renewed vigour to address the shortcomings. The table below highlights the key issues and recommendations for the Government of Uganda.

Table 1: Recommendations		
PFM Stage	**Government**	**Donors**
Plan	• Standardise the structure of sector BFPs and the presentation of project aid within this. • Revitalise the development committee as a mechanism for screening projects and ensuring they are aligned with the PEAP and sector strategies.	• Provide the GOU with medium term projections of total aid flows as well as firm aid commitments.
Budget	• Due to the perverse incentives, the decision to integrate project aid into budget ceilings should be reversed, although project aid should still be presented in the MTEF. • Revitalise the function that the development committee played previously in scrutinising development budget proposals. • Improve the structure and presentation of the Annual Budget Estimates and Ministerial Policy statements, and the presentation of aid within them. • Develop a new aid data system which integrates the systems currently used in preparing the budget, but collects data directly from donors. Sectors should have a role of verifying data from donors.	• Provide timely aid information as requested during the financial year. • Ensure aid data can be provided in line with GOU's financial year.
Parliament	• When new formats of budget documentation are produced, work with the budget office in explaining the changes to Parliamentarians.	• Support parliament in its scrutiny of the budget and the auditor generals' report, and encourage feedback on the use of project aid.
Treasury		• All donor aid to government is moved into the Bank of Uganda and forms part of the consolidated fund.
Accounting	• Ensure successful implementation of the project management module that is being designed for the IFMIS. • The MFPED should require new donor-funded projects to submit accounts in line with the Ugandan financial year for project aid in a timeframe which will allow the preparation consolidated accounts for every vote. • The annual accounts of spending agencies should subsequently incorporate donor project accounts.	• Once the IFMIS project module of the IFMIS is operational, donors should allow their funds to be managed via the system • Wherever possible donors should ensure that accounts are prepared in line with the GOU financial year.
Reporting	• The MFPED should develop a simple system of budget reporting for central votes which includes reporting on the implementation of donor funded projects. To ensure incentives for compliance, this can be linked to budget disbursements.	• Once a budget reporting system is developed which incorporating reporting on projects, donors should use that reporting system for their projects.

Table 1: Recommendations		
PFM Stage	**Government**	**Donors**
Audit	• The Auditor General should incorporate the results of all project audits which have been completed in the budget year in his annual report.	• Donors should involve the Auditor General in the Audit of project aid.
Local Gov't	• Implement the proposals in the FDS to consolidate the grant system. • Introduce transparency around central projects which disburse directly to projects.	• When supporting local service delivery, donors should migrating support towards sector budget support and the grant system, rather than using parallel project or basket funding.

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Annex A: Bringing Aid on Budget in Uganda: Summary Matrix of Recent Evidence and Country Experiences

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B1	**On plan**	Aid is mentioned in government strategic plans only in very general and aggregated terms. The PEAP includes a Long Term Expenditure Framework which incorporates aid projections, whilst sector strategic plans and their associated financing strategies vary in the degree to which aid is explicitly incorporated. Projections for project and programme aid are integrated into the 3-year macroeconomic framework and projections for sector project aid are provided to agencies in the MTEF, which form part of budget ceilings. Aid projections are also incorporated in Sector Budget Framework Papers, which are prepared by Sector Working Groups. A three year Public Investment Plan sets out project allocations in the development budget over the medium term, and associated donor financing.	In the PEAP and strategic plans, the capture of aid in very general terms is largely appropriate. Project aid in the overall MTEF, which is presented by sector, is helpful in facilitating high level inter and intra-sectoral decision making, whilst budget support is appropriately captured as a revenue only. However aid information in sector BFPs is presented in a more haphazard way. Aid captured in the Public Investment Plan, despite being comprehensive and consistent with the MTEF (covering three years), is not presented in a way which facilitates strategic resource allocation, as it is just a list of projects implemented by administrative units. Aid data provided by sectors and by donor agencies for the budget year is over-optimistic; and aid projections for the outer years usually underestimate future levels of aid, as existing commitments tail off over the medium term. The MFPED counters this discounting aid for the budget year in question (different discounts are used for budget support and projects), and making realistic projections of budget support (i.e. projecting it above committed levels) over the Medium Term. A positive element is the transparency of the process and the availability of sector and national budget framework papers to stakeholders in sector working groups and across government.	The financial aid data provided by donors and for inclusion in the PIP and MTEF is largely based on financial commitments. As donors rarely meet their commitments in full, this is why the numbers that they provide for the budget year are over-optimistic. The fact that donors are unwilling to make projections above what they have formally committed to, even though they know that new projects and programmes are likely to appear, means that aid tails off over the medium term. . Data is well presented in the national BFP largely because the MFPED has established capacity and a clear and simple system for summarising the information contained in sector BFPs in the National BFP. Sector BFPs are less well presented as a result of the variable capacity of sector working groups and the vague guidelines provided by the MFPED in the Budget Call Circular, which can be interpreted in different ways. In addition, many line ministry planning departments do not always keep track effectively of the performance of different projects, often because they have little incentive to do so.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B2	**On budget**	Aid is captured in the annual budget documentation at three levels: • **The Budget Speech,** which provides a summary of the MTEF and Macroeconomic Framework, and on-budget programme and project aid to government is incorporated. • **The Estimates of Revenue and Expenditure** are the detailed annual budget estimates include the summary tables from the budget speech plus detailed information of project aid in the development budget estimates. The development budget is presented by project and line item in terms of local allocations, donor funded allocations and in total. The funding sources are also presented – either the GOU budget or the specific donor. • **Ministerial Policy Statements,** which are prepared by line ministries, also capture project aid in a similar way to budget framework papers. They also often append the relevant extracts from the draft annual budget estimates for the recurrent and development budget, and therefore include aid.	All project aid to government spending votes is supposed to be captured in the annual budget by law, but in practice there are gaps in most sectors, and estimates show that this may be up to a third. It is important to note that other project aid is legitimately off budget – for example aid to NGOs and parastatals does not appear on budget. The allocations which appear in the Annual Budget are based on annual donor commitments, rather than the discounted numbers which appear in the Macroeconomic Framework and MTEF. This is because it is difficult to predict which individual project or programme is likely to under-perform. There are problems in presentation of data in the budget estimates, which is largely administrative, with separate recurrent and development budgets. This makes it difficult to get a picture of what aid and domestic government expenditure is being spent on, overall. Meanwhile ministerial policy statements, like the Budget Framework Papers, suffer from a lack of standardisation in the way data is presented. These are issues relating to overall budget presentation rather than a lack of integration of aid, which is well integrated in terms of structure and process. The timing of final aid data is problematic, with donors often providing final information late in the budget process. This makes it difficult to compare and reconcile with sector level data provided in budget submissions.	Aid has been integrated into budget/MTEF ceilings and this has created perverse incentives which has pushed aid off budget. This integration means that any increases in project aid would result in a reduction in domestic budget allocations for a sector to remain within the ceiling. The rationale is to improve allocative efficiency, by encouraging budgetary decisions on the basis of overall resources to the sector, and an examination of how sectors should be financed. However in order to avoid the risk of reduced GOU domestic budget funding, sectors have faced perverse incentives: both not to disclose all donor funded projects for which they are receiving funds, and to under-estimate the level of this donor project funding. This is exacerbated by the fact that the budget processes, and the Development Management System, rely on aid data generated by sector ministries themselves. The Macroeconomic Department of MFPED attempted to improve aid data by collecting it directly from donors, however the timing of this data from donors makes it difficult to reconcile with that generated from line ministries. No modality for doing this has been established, and the data used for macro projections and the data for the annual budget and PIP remain un-reconciled. Little attention has been given to the way in which the annual budget and ministerial policy statements are presented in recent years, as more focus has been placed on BFPs and the MTEF – the strategic phase of the budget process.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B3	**On parliament**	In the budget process and PFM cycle Parliament has three main stages of engagement, and aid is incorporated in documentation in all these stages: • First is to review and make recommendations to the Executive on the contents of the National Budget Framework. • Second is to deliberate on and approve of the national budget. The focus of parliamentary discussion on the annual budget estimates are Ministerial Policy Statements. The relevant sectoral sessional committees review the budget and report to the Budget Committee. • Third is the review by the Central and Local Government Public Accounts Committees of the Auditor General's reports. Since 2003, and the adoption of the Public Financial and Accountability Act, project aid has formally been voted on by parliament, forming part of annual appropriations. Previously project aid had only been provided to inform the budget process. In addition Parliament has the responsibility of approving loans and guarantees, on a case by case basis. The Economic Committee of Parliament takes the lead in this.	Whilst the budget process does provide a sound basis for scrutiny by parliament of aid and the budget, and the relevant parliamentary committees are relatively active, there are issues with the information presented to parliament and its capacity to scrutinise that information. Whilst the National BFP, and the presentation of aid within it provides a fairly useful basis for parliament to comment on the executive's proposals inter-sectoral allocations, this is limited by the quality of aid data within it. The way information is presented in Ministerial Policy Statements and the Annual Budget Estimates is more the limiting factor for parliamentary decision making, and accountability. It is difficult for parliamentarians to ascertain what project aid will be spent on in the budget year by different spending agencies. I The Parliamentary Accounts Committee only reviews the audits of projects in the Auditor General's Report, which are a minority of projects, despite the fact that they vote the relevant expenditures in the budget.	The explanation for the problems is the way information is presented and the quality. Although far from being strong, the existence of a Parliamentary Budget Office does help in the quality of scrutiny by parliamentarians, and the introduction of multi-party politics has added vigour to the discussions. Meanwhile the fact that the government accounts and Auditor General's reports do not capture all project aid is the reason why the Public Accounts Committee does not discuss project expenditures in full.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B4	**On treasury**	All programme aid, including General Budget Support and Sector Budget Support is disbursed through the Consolidated Fund using the treasury system in its entirety. Beyond monitoring disbursements to the Consolidated Fund, there is no tracking of programme aid through the accounting system as any earmarking is notional. Although project aid forms part of the Consolidated fund, it does not use treasury systems during budget execution. Recently all accounts donor projects to government were transferred to the Bank of Uganda, which has improved information on aid flows (as well as liquidity management in the public sector). These accounts fall under the supervision of the Accountant General, and are managed by the respective government spending agencies. Spending agencies are required to forward requests for disbursement of funds to the Accountant General who forwards the request to donors. Although most major donors respect this, it is not universal.	Annual disbursements for general and sector budget support have become increasingly predictable. Some budget support is notionally earmarked to the Poverty Action Fund. The main commitment the GOU makes with respect to the PAF is to ensure that budget disbursements are at least 95% of budgeted amounts for PAF programmes. However the funding sources are not tracked to specific expenditure lines. Disbursements of programme aid to the consolidated fund are reported on in Budget Performance reports The predictability of disbursements of project aid through parallel systems is difficult to assess. However the unpredictability of project aid is evident, as the MFPED sees fit to apply a discount factor at the time of budgeting, alongside programme aid. The Bank of Uganda and MFPED are now able to track disbursements to and outflows from project accounts, as part of its liquidity management. There is no fully reconciled statement of budgeted project aid, aid disbursed and aid used.	Programme aid is by definition on Treasury. The movement of project accounts into the Bank of Uganda was largely motivated by a desire to improve liquidity management, as GOU had substantial idle balances lying in commercial accounts.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B5	**On account**	Debt Relief and Budget Support in all its forms use government accounting systems in full, and expenditures funded by budget support are covered in the accounts of central and local governments. Whilst programme aid appears in the revenue budget, activities funded by programme aid are not separately identifiable on the expenditure side, as programme aid is only notionally earmarked. Project aid may use government procurement systems, but projects at the centre do not and cannot use the government's accounting systems. Meanwhile many projects submit their accounts for audit late or, use different (donor) financial years, which complicates the accounting cycle, and prevents spending agencies preparing consolidated project accounts for a given financial year. This means that spending agencies' annual accounts prepared for audit do not cover project aid. Some project aid uses local government accounting systems, which are manual, but be kept in separate bank accounts.	As with the budget and treasury, expenditures financed by programme aid are automatically covered by the government accounting system. Programme aid is not, however tracked to specific expenditures through the accounting system. As there is little or no capture of project aid in the government accounting system, it is neither captured well, nor usefully. Project aid does not appear in the annual financial statements of the spending agency concerned, although separate project accounts (usually using the donor system) will be prepared.	Although the accounting system would allow the tracking of expenditures by source this is not done, as any earmarking of budget support to expenditures (via the PAF or sectors) is only notional. To date there has been no mechanism through which donor project funding the government accounting system, although a project management module is being developed for the automated IFMIS, which will be able to manage donor funds. This is a symptom of early focus on the shift towards budget support and away from projects – aligning projects to government systems was not seen as a priority. Although project accounts are prepared, donor systems and financial years are often used, and ministries and agencies do not (and are probably unable to) prepare consolidated annual financial statements including donor project funding.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B6	**On audit**	Debt relief and budget support in all its forms are covered in the overall report of the Auditor General – both in terms of his audit of Central Government Votes and his audits of local governments. In addition to auditing central Government Votes, the Auditor General audits donor project accounts individually, and since 2004/05 offers an opinion on those projects and these opinions and findings are presented his Annual Report. Where relevant this covers aid provided to that project. In the 2003/04 financial year the Auditor General was only able to Audit 2/3 of donor funded project accounts, however none of these reports formed part of the Annual Report.	Audit reports submitted to Parliament are limited to financial information, although some of the project reports may involve an element of value for money. As Government becomes increasingly timely with the preparation of its accounts, so has the Auditor General been increasingly timely with the auditing of reports. The access to audit reports is good – reports to parliament are in the public domain and available on the website, as are some agency specific accounts. There are specific problems with project aid and the coverage of projects. The first problem appears to be the actual number of projects audited. In addition the fact that not all aid is included in the budget, as outlined in B2, adds to the incompleteness.	The coverage of donor projects is limited by the number of project accounts available for audit and whether donors have supported an audit of those funds endorsed by the Auditor General. The timing of the submission of accounts for those projects which are audited means that the Auditor General is usually unable to include them in his annual report. Although the capacity of the Office of the Auditor General is limited to carry out substantive audits, he is increasingly interested in capturing project support in the Annual Audit Reports, and has been raising issues relating to the incompleteness of the budget and accounts in his recent Annual Reports.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B7	**On report**	General budget support and sector budget support are fully on treasury, on account and on report, and any weaknesses are symptomatic of general government financial management and accounting systems. The content of annual financial statements was mentioned earlier. In addition to the annual financial statements of spending agencies the following are the main vehicles of reporting on aid, and the extent of aid information captured: • ***Project Reporting System*** – as early as 2000 the Office of the Prime Minister attempted to introduce a project reporting system which included financial information on aid, but compliance has been the major problem, and the system never properly took off. • ***Budget Performance Reports –*** Budget performance reports, which are prepared every six months provide aggregate information on disbursements relating to grants and loans, projects and budget support. In addition budget support disbursements are broken down by donor. • ***Annual Development Cooperation Reports –*** Each year the Aid Liaison Department of the Ministry of Finance Prepares a Development Cooperation Report which attempts to provide comprehensive data on aid disbursements for the financial year in question. • ***Sector Annual Performance Reports*** Some sectors, as part of their SWAps, table Annual Sector Performance Reports at their Joint Reviews. These set out the overall performance of a sector, including aid.	The project reporting system spearheaded by office of the Prime Minister has suffered from compliance problems, and never resulted in consolidated performance information. Budget Performance Reports provide aggregate aid information in a useful way, however project information is not broken down into sectors, spending agencies or projects, and only reflects disbursements and not expenditures. Annual Development Cooperation Reports do provide useful comparative information over time and across sectors/donors, but they take a long time to produce and are subject to the data limitations of the Development Management systems discussed above. Whilst Sector Performance Reports would represent an important potential vehicle for the discussion of aid performance, these focus more on performance against policy objectives, rather than financial information, and aid. The only formally audited statements of aid are the annual financial statements. All other aid reporting is not audited, although past figures may have been subject to audit.	The ineffectiveness of the project reporting system was largely due to the fact that spending agencies had little or no incentive to comply with the requirements, which was also a heavy process. Meanwhile there is usually a stronger incentive to report to donors directly. This contributes to an overall fragmentation of reporting, with different institutions demanding reports. The lack of expenditure reporting overall reflects shortcomings in budget reporting, and not aid management, although for the GOU budget this is likely to be addressed in the coming financial year. In terms of projects, beyond the commitment control system, the absence of a functioning project based reporting system means that consolidation is difficult, although information on disbursements and expenditures should be available from Bank of Uganda data.

Annex B: PEFA Assessment and PFM Reform Priorities

Extracts from the 2005 PFM Performance Report

PI-5 Classification of the budget

1. GOU has introduced a new classification system encompassing administrative and economic classifications. The new chart of accounts was used for the first time for the 2004/05 budget. The new classifications include fund and funding source, administrative (vote and cost centres), project, Medium Term Budget Framework (sector), MTEF (objective, output, and activity), and account (class, item, and sub-item) codes. Spare segments within the COA provide flexibility for future requirements. The functional analysis set out in the Classification of the Functions of Government (COFOG) is not seen as fully applicable in Uganda. The GOU has therefore decided to adjust the functional classification to match the structure of the new Poverty Eradication Action Plan. Matching to the COFOG will be provided through IFMS reporting capabilities. Classification of statutory authorities and state enterprises does not follow GFS guidelines.

2. In the Financial Management and Accountability Project (FINMAP) document, it is noted that there is also the intention to further develop the use of the GFS classification (reference 2.3.1).

Dimensions to be assessed (Scoring Method M1) (i) The classification system used for formulation, execution and reporting of the central government's budget. B The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.

PI-6 Comprehensiveness of information included in budget documentation

3. Budget documentation in the form of the Budget Speech, the background to the budget, individual ministry submissions, and information required under the Budget Act 2001 on total external indebtedness and grants received as well as guarantees provided provide a fairly comprehensive pack of information for review by Parliament. Information on financial assets, the budgetary implications of new policy initiatives and detailed information on the debt stock are less well covered. The ability of parliament and its committees to analyse the information still needs to be addressed.

4. , The Parliamentary Strategic Investment Development Plan (PSIDP) identifies a number of areas where parliamentarians and associated committees require strengthening in order that they can carry out their legislative and scrutiny role more effectively.

Dimensions to be assessed (Scoring Method M1) (i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met). B recent budget documentation fulfils 5-6 of the 9 information benchmarks

PI-7 Extent of unreported government operations

5. By its nature, it is difficult to quantify the extent of unreported government operations. However, it is generally considered that a fairly significant level of public expenditure in the form of non tax

revenue (NTR) is retained by semi- autonomous bodies and that there is under reporting of NTR in the budget. It is estimated that this is likely to be in the range of 5 - 10 % of total government expenditure. The situation is complicated by the existence of statutory authorities which carry out central government activities but which do not report on a timely basis.

6. Whilst it is recognised that there has been improved reporting of donor project expenditure, the completeness and timeliness of the information particularly in relation to expenditure is lacking. In general, expenditure on loan financed projects is received on a timely basis for inclusion in fiscal reports.

7. The Government has instituted various measures to improve the collection and maintenance of information on donor funded projects through both the DMFAS system maintained by the Accountant General's Office and through the Aid Liaison department in the Directorate of Economic Affairs.

Dimensions to be assessed (Scoring Method M1):
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.
C The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5 – 10 % of total expenditure
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.
C Complete income/expenditure information for all loan financed projects is included in fiscal reports

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

8. Information provided by donors for budgeting and reporting on project and programme aid has improved significantly, although there are still concerns over its completeness and timeliness. However for forecasting purposes, the main donors provide estimates of project aid in a format which is consistent with the government's classification and in a timely manner. Information on actual expenditure, although improving is still late.

Dimensions to be assessed (Scoring Method M1):
(i) Completeness and timeliness of budget estimates by donors for project support.
B At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.
D Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

D-3 Proportion of aid that is managed by use of national procedures

9. As approximately 50% of aid is provided as budget support (general or sector), at least 50% of aid is managed through the use of national procedures. It is assumed that the majority of project funds do not use national procedures.

Dimensions to be assessed (Scoring Method M1):
(i) Overall proportion of aid funds to central government that are managed through national procedures.
C -50% or more of aid funds to central government are managed through national procedures

GOU PFM Reform Priorities

Medium Term PFM Reform Priorities (and related PEFA PFM Performance indicator)	CG,LG
Budget Credibility	
1. If the budget is to be an effective instrument of implementing policy, **improving the predictability of expenditure outturns relative to central MDA or LG department budgets,** by improving realism in budget estimates & reducing budget adjustments is a key priority (PI2).	*CG, LG*
2. In LGs a further problem is the **unrealistic revenue projections**, especially for local revenues and donor funding (PI3).	*LG*
3. In addition the stock or expenditure arrears us substantial and monitoring very weak, and this further undermines the credibility or the budget. **Addressing the problem of arrears** is therefore also a key priority (PI4).	*CG, LG*
Comprehensiveness & Transparency	
4. Information on CG **non tax revenues and related expenditures need to be captured comprehensively in budgeting and reporting processes (including donor funding)** (PI7).	CG
5. **Improving the monitoring of the fiscal position of Statutory Authorities, State Enterprises and LGs** by government ministries and parliament is particularly important in reducing aggregate fiscal risk in government (PI9).	CG, LG
6. **The timeliness and reliability of information provided to LGs during the budget cycle needs to improve,** and **LG fiscal information needs to be consolidated** (PI3).	LG
Budget Formulation	
7. **The budget, or Aggregate MDA allocations, need to be approved earlier before the close of the previous FY** by CG and subsequently LG (PI11).	CG, LG
8. **The MTEF process needs to be deepened**, improving the link of the MTEF to the PEAP and sector strategies, extending the coverage and quality of sector strategies in line with macro ceilings, and the reliability of outer year MTEF sector ceilings. In addition, efforts to improve the operational efficiency of sector budget allocations need to be put in place. (PI12)	CG, LG
Budget Execution	
9. Prior to making a significant drive to improve the administration of local taxes, **it is important to clarify local revenue policies**, to ensure that LGs have meaningful revenue base, and taxpayers a clear understanding of their obligations (PI13).	LG
10. **Improving tax administration**, including the procedures for taxpayer registration, assessment and effectiveness of tax collection by both URA and LGs, especially so by URA given the importance of the central revenue base (PI14&15).	CG, LG
11. **Improving competition, value for money and controls in procurement** at CG and LG (PI19)	
12. **Improving the predictability and quality of commitment and expenditure controls**, including improving the management of releases, the consolidation of cash balances, the processing of transactions, and the effectiveness of internal controls for non-salary expenditures (PI16,17,20).	CG, LG
13. **Improving the effectiveness of Payroll Controls,** given their weaknesses, and the large share of salaries in the budget (PI18).	CG, LG
14. **Improving the effectiveness of internal audit** is key to better quality internal controls (PI21).	CG, LG
Accounting and Reporting	
15. **Improving information on the availability of information on resources transferred to service delivery units within LGs** would help improve the quality of LG reporting, and also information compiled by central government (PI23).	LG
16. **Improve the quality and timeliness of in year budget reports by MDAs and LGs**, as well as for the budget as a whole, and strengthening the link to reporting on sector and PEAP implementation (PI24)	CG, LG
17. In addition **the quality of LG final accounts needs to be improved** (PI25).	LG
External Scrutiny	
18. **Improving the scope, nature and follow up of external audit** at central and LG levels (PI26)	CG, LG
19. **There is need to improve parliamentary scrutiny of the budget** by increasing the capacity of and time available to parliament to scrutinise the budget, and ensure that rules for budgetary amendments are followed (PI27).	CG
20. **Improving the scrutiny of external audit reports by Parliament and Local Councils**. (PI28)	CG, LG

Source: FINMAP Programme Document (2006)