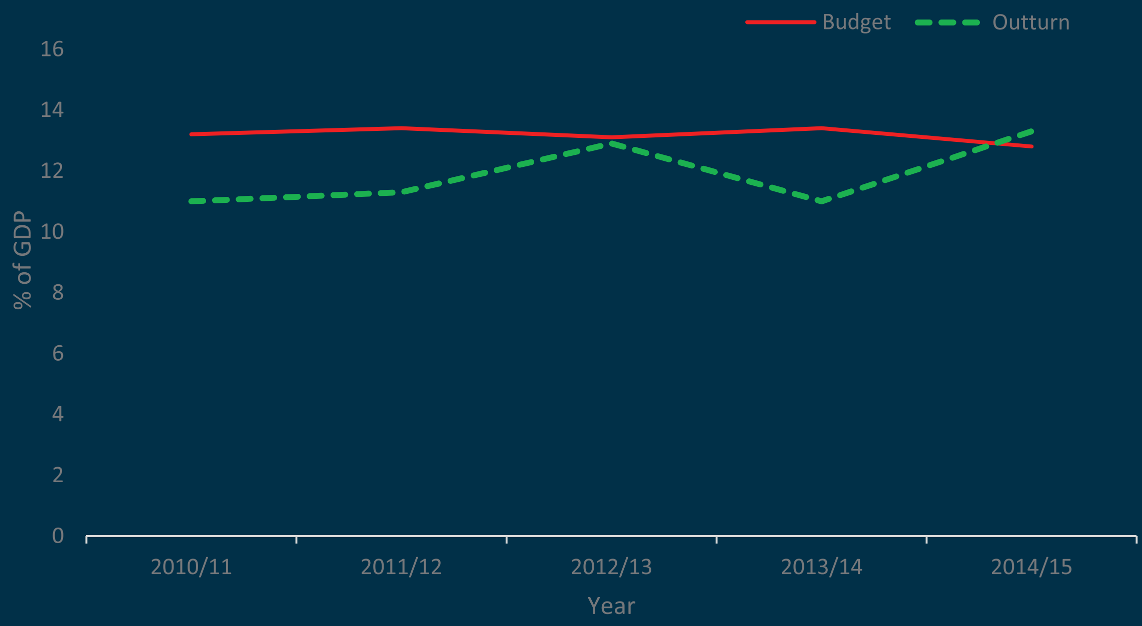
ECONOMIC POLICY RESEARCH CENTRE

Towards Sustainable Development

RESEARCH SERIES No. 131

LINKING BUDGETS TO PLANS IN A CONSTRAINED RESOURCE AND INSTITUTIONAL ENVIRONMENT: THE CASE OF UGANDA



Corti Paul Lakuma
Musa Mayanja Lwanga

March 2017

RESEARCH SERIES No. 131

LINKING BUDGETS TO PLANS IN A CONSTRAINED RESOURCE AND INSTITUTIONAL ENVIRONMENT: THE CASE OF UGANDA

Corti Paul Lakuma
Musa Mayanja Lwanga

March 2017

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis. Since its inception, the EPRC has made significant contributions to national and regional policy formulation and implementation in the Republic of Uganda and throughout East Africa. The Centre has also contributed to national and international development processes through intellectual policy discourse and capacity strengthening for policy analysis, design and management. The EPRC envisions itself as a Centre of excellence that is capable of maintaining a competitive edge in providing national leadership in intellectual economic policy discourse, through timely research-based contribution to policy processes.

Any enquiries can be addressed in writing to the Executive Director on the following address:

Economic Policy Research Centre
Plot 51, Pool Road, Makerere University Campus
P.O. Box 7841, Kampala, Uganda
Tel: +256-414-541023/4
Fax: +256-414-541022
Email: eprc@eprcug.org
Web: www.eprcug.org

TABLE OF CONTENTS

ABSTRACT

The enactment of Uganda's first National Development Plan has largely been marked by poor implementation of its activities, leading to poor budget outcomes. This has largely been due to the inaccuracies of the Medium Term Expenditure Framework (MTEF) in forecasting the budget, to leakage, and to the tendency of the executive branch of government to make public promises in the budget. The slow progress of the effort to mobilise domestic revenues and the significant reduction in donor financing have exacerbated the problem, leading to an accumulation of arrears by way of supplementary budgets. Absorption constraints, as a consequence of lack of expenditure control at the sectoral level, are also partly responsible for the poor integration of budgets into plans. The paper suggests reforms aimed at increasing technical capacity at three levels: budget forecasting, budget operation in responding to budget shortfalls/surplus, and technical efficiency and effectiveness in sectoral reallocation in the face of implementation costs. The paper also emphasises the importance of political institutional support in demanding performance, transparency and accountability for sustainable budgetary outcomes.

1. INTRODUCTION

In 2010, Uganda embarked on a journey to transform its economy and become a middle-income country, as stipulated in the plan known as Vision 2040. It is envisioned that Vision 2040 will be implemented through a series of six national Development Plans (NDPs) lasting five years each. However, during the implementation of the first NDP (NDP I), a significant proportion of policy measures – including key objectives and priorities - were poorly prioritized and often de-linked from the available financial resources in the budget. In a general sense, the constraints that hinder the integration of budgets and plans emanate from the differences in the scopes of the two concepts. Budgets tend to focus on the short-term perspective (the financial year). On the other hand, planning generally takes a longer view (five years). It is, therefore, likely that Uganda is facing the challenge of translating its plans from the long- to the short-term, as well as the difficulty of aligning the budgets to the two sets of plans.

In addition to differences in scope, financial mobilisation is a key bottleneck to the successful execution of Uganda's NDPs. This constraint largely emanates from the slow progress of the effort to mobilise domestic revenues and the changes in donor financing architecture. Tax revenue as a percentage of the gross domestic product (GDP) stagnated, on average, at 12 percent during the NDP I period (GoU, 2015). Furthermore, the outturn of donor funding declined to 65 percent during that period compared to 86 percent during the Poverty Eradication Action Plan (PEAP) (Ibid). The lower outturn of donor funding has been largely driven by austerity measures implemented in the donor countries in response to the global economic downturn, as well as corruption, human rights concerns, and donors' continued perceptions of positive growth and development in Uganda's economy, which makes the country ineligible for certain grants.

The variance between actual revenue and forecasted revenue leads to the accumulation of arrears and to sectoral reallocation of resources by way of supplementary budgets, both of which undermine budget credibility and the successful implementation of the NDP. In addition to reductions in donor assistance, some development partners prefer to channel their funding through programmes and projects rather than through the budget, which has consequences for Uganda's budgeting framework and complicates the forecast of the possible macroeconomic impact of such spending.

The question of the prudent use of mobilised resources also emerges. This has largely been a consequence of lack of expenditure control in some government Ministries, Departments and Agencies (MDAs), which points to the absence of institutional support to ensure sound and sustainable budgetary outcomes. This, in turn, points to weaknesses in Uganda's formal and informal institutional arrangements with regard to demanding good performance to ensure sustainable results. Particularly, there is a weak interaction between the three levels of budgetary outcomes—aggregate fiscal discipline, allocative efficiency, and technical efficiency– and the political system (parliament, executive, judiciary and civil society) that enables those outcomes. In addition, there is the challenge of harmonising the entire process of planning, resource mobilisation and allocation, as well as the challenge of implementation given the broad policy objective of macroeconomic stability. In Uganda, government spending is expected to be in line with a single-digit inflation target and moderate exchange rate stability, among other goals.

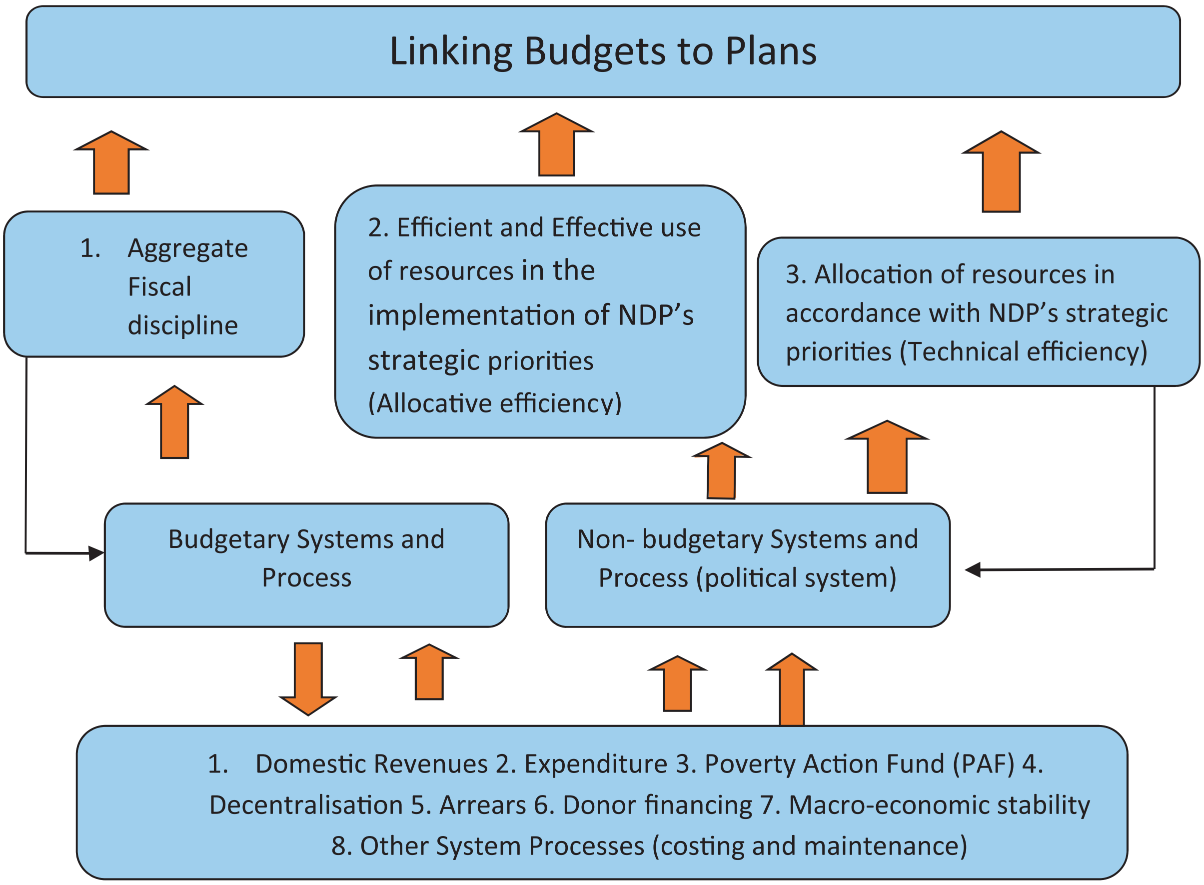
It is against this background that this study analyses the budget design that targets the flow of funds to the NDP's priorities while also ensuring coordination between aggregate expenditures and macroeconomic policy. Specifically, the study seeks to do the following: first, establish the accuracy of the budget forecast – as provided by the Medium Term Expenditure Framework (MTEF) – in predicting the alignment between actual aggregate expenditures and the NDP; second, critically review the operation of budget tools in responding to risks presented by unanticipated budget shortfalls and loss of expenditure control (arrears) in some sectors; and, lastly, examine the framework within which resources intended for under-spending sectors (absorption constraints) can be reallocated to overspending sectors in view of sectoral and NDP priorities and with awareness of implementation costs and inbuilt monitoring indicators. The study follows, with some modifications, the methodologies utilised by Bevans and Palomba (2000), World Bank (1998), Ghura (1998) and Le Houerou and Taliercio (2002).

The rest of the paper is arranged as follows: section 2 presents the methodology and data sources. A discussion of the various components of budget performance and effectiveness, such as revenue mobilization and expenditures, are presented in section 3. Section 4 concludes and offers a way forward.

2. METHODOLOGY

Conceptually, this paper utilises the theory of change to highlight the pressure faced by the budgetary system in Uganda in linking budgets to plans. Budgets can be linked to plans if the budget systems are in control of public resources and can plan for the future allocation of resources or management of resources. In examining the effectiveness of budgeting tools in achieving these objectives, the paper examines three levels of budget performance: aggregate fiscal discipline; efficient and effective use of resources in the implementation of strategic priorities (allocative efficiency); and allocation of resources in accordance with strategic priorities (technical efficiency)
(Figure 1).

Figure 1: Theory of Change of Linking Budgets to Plans



As illustrated in Figure 1, the paper analyses Uganda's budgetary systems and processes that facilitate the achievement of aggregate fiscal discipline to enable budgets to deliver on plans. However, more often, aggregate fiscal discipline is emphasised by the government of Uganda (GoU) at the expenses of both allocative and technical efficiency. This leads to an arbitrary reordering of priorities and devastatingly poor service delivery and operational performance at the sectoral level. In this regard, the paper also examines non- budgetary systems and the political economy that supports the allocative and technical efficiency of Uganda's budget system.

Therefore, for the budget to be linked to the plans, budgetary and non-budgetary processes need to support the three levels of budget performance. Figure 1 shows that the budget process and system may only influence the first level (aggregate discipline) of budget outcomes. As such, non-budgetary institutions (institutional arrangements and political economy) influence the quality of the outcomes (technical and allocative efficiency) and must be keenly observed while budgeting. Indeed, resource allocation is fundamentally a political process.

The last stage in Figure 1 focuses on how to measure the implementation of the three levels of budget performance during the first NDP in Uganda. Eight indicators of budget performance and effectiveness are analysed to identify what works or does not work for the three levels of budget performance. These indicators include domestic revenues, expenditures, the poverty action fund, decentralisation, arrears, donor financing, macro-economic stability and system processes.

The paper draws heavily on secondary data sourced from the Ministry of Finance, Planning and Economic Development (MoFPED) and the National Planning Authority (NPA), especially in the areas of the budgetary process, performance and economic governance. This information is complemented by Key Informant Interviews (KIIs). The purpose of key informant interviews was to collect information from key officers at MoFPED and NPA who have particular knowledge and understanding of the workings of budgets and plans, with the goal of providing insight into the nature of problems and giving recommendations for solutions.

3. DISCUSSION OF BUDGET PERFORMANCE AND EFFECTIVENESS

3.1 Domestic resource mobilisation

3.1.1 The current and prospective positions

The domestic share of financing posed a major problem for the successful execution of the first NDP. This was attributed to slow progress in domestic revenue mobilisation, amongst other problems. Tax revenues as a percentage of GDP, were, on average, 12.4 percent during the first NDP period, an outcome that was lower than the projected 13 percent. In light of the decline in external assistance – from 1.89 percent of GDP in 2010/11 to 1.45 percent in 2012/13 – the financing and implementation of NDP I was constrained. Uganda's total annual expenditure amounts to approximately 22.2 percent of GDP (GoU, 2015). With a revenue outturn of 12.4 percent of GDP, this implies an expenditure gap of 11.8 percentage points. This leads to a deficit between budgets and outturns in many of the 16 critical budget sectors; it also leads to the reallocation of resources from sectors that tend to underspend to those that tend to overspend[1]. It is common for ministries to face within-year cuts to their approved budgets to make up for shortfalls in the resource envelope or for one ministry to cut its budget to make up for shortfalls in the resource envelope (Reinikka and Collier, 2001). The reallocation of resources between sectors undermines the government's operational efficiency, its ability to deliver on its contracts with citizens and donors, and its ability to deliver social services (Simson and Welham, 2014).

Variations between budgets and outturns are largely a consequence of revenue forecast errors. Revenue forecasts errors expand the perceived fiscal space and hence the size of planned expenditures beyond the available resource envelope. Unless there are other sources of revenue, expenditures must be constrained to match the budgeted amounts. In light of priority sectors and donor-financed sectors protected from budget cuts, shortfalls in revenues are likely to result in unplanned shifts in budget composition.

For instance, in 2011/12, the GoU targeted a 0.5 percentage point increase per annum in domestic revenue mobilisation (MoFPED, 2012). However, this was not achieved. Consequently, the government had to revise its revenue outlook to 13 percent – from an earlier forecast of 15 percent of GDP – over the medium term (ibid). This contraction of revenue could have been due to the observed constraints on resource mobilisation and project implementation, recalibration of the size of the economy (which expanded the size of Uganda's economy significantly) and tax exemptions.

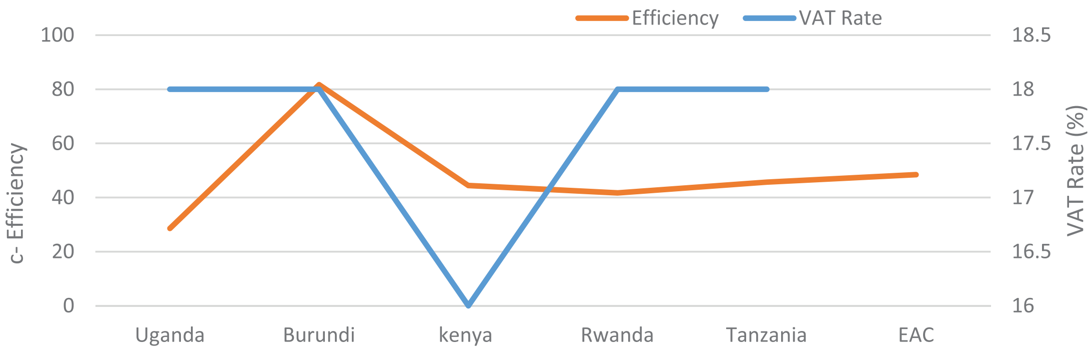
In this regard, there is room to increase tax revenue, particularly by minimising tax exemptions such as Value Added Tax (VAT) exemptions, which have compromised the effectiveness of tax collection. VAT exemptions are valued at an average of 1 percent of GDP over the first NDP (MoFPED 2015). Uganda's VAT efficiency rate is the lowest out of all its partner states in the East African Community (EAC) (Figure 2).

In addition, the exemptions not only complicate tax administration but also create a culture of non-compliance among other taxpayers (ACBF, 2015). Deficiencies in filing, compliance and collections of VAT for the vast majority of firms cost the government approximately 6 percent of GDP in foregone revenue annually (GoU, 2015). There is a case for reducing distorting exemptions, or for retaining them on the condition that they will cause trade volumes to increase by more than enough to offset the direct revenue losses that they cause.

Nevertheless, the GoU remains optimistic regarding the tax potential of GDP growth. This is particularly reinforced by the assumption that a 7 percent GDP growth rate will deliver per capita income increases ranging from US$625 in 2014/15 to US$1,039 in 2019/20 (Ibid). However, experience tends to confirm that it is generally not prudent to presume that economic growth will automatically yield tax revenues, in particular over the medium-to-long term. Growth is subject to significant uncertainty. As such, a policy response is likely to be needed to support domestic resource mobilization.

For a developing country like Uganda, it seems unlikely that a reduction in the tax ratio will be an objective of policy. To this end, an increase in incomes may legitimise an increase in tax rates. The biggest driver of tax increases in African countries since 2000 has been rising taxes on income and profits, and more specifically, increases in corporate income tax and VAT revenue (OECD, 2016). Gale and Samwick (2014) show that, at the margin, growth can be sustained even during a period of higher tax rates. In this respect, it is important to intensify the collection of consumption taxes such as VAT, which has the advantage of reaching the informal economy. VAT is also easier to monitor and collect using the infrastructure and administrative machinery used for custom taxes. It is not uncommon, for example, to find that developing countries collect more than half of their VAT revenues from imports (IMF, 2005).

Figure 2: VAT revenue performance in EAC countries, 2016



Source: International Monetary Fund (IMF), 2015

However, an increase in the tax rate could wipe away the welfare gains achieved through the 2012/13 tax reforms, which resulted in a significant loss of government revenue (nearly 0.2 percent of GDP) (Ssewanyana and Kasirye, 2015). The Income Tax (Amendment) Act of 2012 was progressive, and it tended to transfer the tax burden to relatively affluent citizens. According to Igaga- Kwagala (2016), this amendment imposed a 10 percent tax rate on persons with annual incomes not exceeding UGX 4 Million, a 20 percent tax rate on persons with incomes not exceeding UGX 5 million, a rate of 30 percent on those with annual incomes of more than UGX 5 million, and lastly, 40 percent on those with an annual income exceeding UGX 120 million.

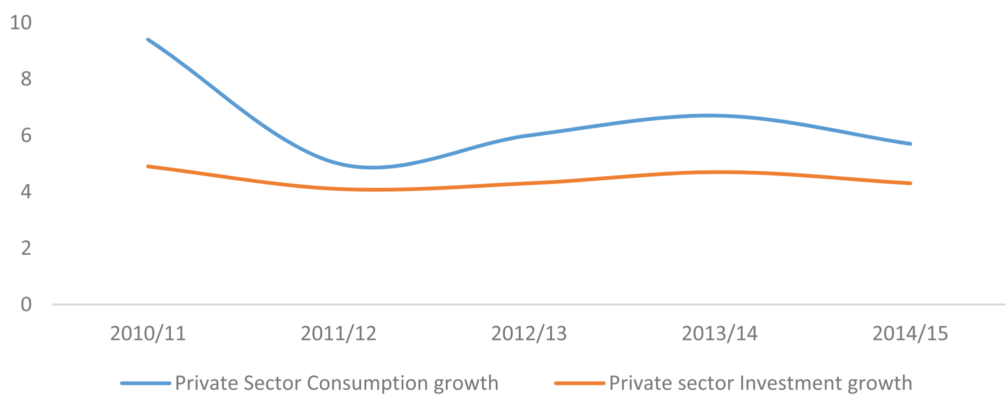
In addition, raising tax rates on a narrow formal private sector would not be sustainable, especially given the size of the informal sector (48 percent). A high tax rate could exacerbate the loss of already-low private investments, with dire implications for other aggregates such as employment (Lakuma *et.al*., 2016). Figure 3 shows that in 2014/15, domestic private consumption and investment spending grew by 5.7 percent and 4.3 percent, compared to 9.4 percent and 4.9 percent in 2010/11, respectively. The less-than-favourable growth in private consumption and investment partially explains the low tax effort. Therefore, intensification of efforts to improve tax revenue should also focus on supporting the growth of private sector investments and not only on increasing tax rates.

Given the limited scope for increasing tax rates, the strategy for increasing revenues may largely hinge on improving revenue administration, especially with regard to measures that improve taxpayer compliance, facilitate the increment of Non-Tax Revenue (NTR) and improve service delivery (to motivate taxpayers), amongst other strategies. However, as mentioned earlier, a number of challenges negatively impact such revenue administration efforts. First and foremost is the informality of the economy. While recognising 'informality' as a central challenge in strengthening tax systems in developing countries, lumping together quite different forms of noncompliance—and indeed compliance – is not an informative approach for practical policy (IMF, 2015).

Many 'informal' enterprises, for instance, are so small that they have no legal liability to remit taxes; and, failure to register poses quite distinct challenges compared to registration followed by under-payment or fraud. Failure to register, for instance, is likely to be a greater issue with the smallest taxpayers than the largest; while ensuring prompt payment and monitoring avoidance is a greater issue with the latter. Tailoring interventions by taxpayer type calls for appropriate organizational structuring and allocation of administrative resources and skills.

The extent of compliance with legal obligations affects the revenue yields, efficiency and fairness of the tax system. In Uganda, the revenue authority anxious to meet its revenue target has concentrated its efforts on

Figure 3: Private consumption and investment growth in Uganda, 2010-2015, %



Source: MoFPED (2015)

more compliant taxpayers, putting the non-complaint at an advantage. The perception of unequal treatment can jeopardize wider willingness to comply. The absence of a national identification system, existence of hard-to-tax sectors such as construction and agriculture, and the perception that taxes are not used for service delivery exacerbate non-compliance (Mawejje and Ouma, 2016).

The second challenge involves ring fencing of taxable revenue and NTR by a number of agencies that seek to create funds and retain collections at the source. This practice impinges on budget credibility. For instance, MDAs submitted only 76 percent of the 2012/13 NTR assessments, largely due to retention of NTR at the source and non-implementation of the revised NTR rates by MDAs, as anticipated (MoFPED, 2013). Retention of revenue at the source would not be a problem if it only occurred with the understanding that the revenue is needed by the entity and would still be sent back in the event that it was remitted to the centre. However, this has provided an opportunity for abuse: there have been problems with under-declarations, poor accounting, and other issues related to weak institutions.

Nevertheless, NTR's contributions to revenue are small (0.2 percent of GDP per annum[2]), and the growth of NTR remains slow - projected to reach only 0.4 percent of GDP by 2019 (Ibid). The low growth of NTR could be due to understaffing and weakness in the units dedicated to collection of NTR at the Uganda Revenue Authority. There is also a need to streamline who is responsible for collecting NTR. The legal framework does not dictate whether NTR should be submitted directly to the consolidated fund or to the Ugandan Revenue Authority. Reforms in Rwanda are associated with increased NTR performance. The total NTR collected by Rwanda in 2014 was 9.5 percent of GDP (OECD, 2016). Among the reforms implemented by the government of Rwanda to achieve this performance was the ring-fencing of mining operations to limit subsidies to the industry, as well as the clarification of the administration of royalties (Ibid). NTR has also been enhanced by the control and timely submission of rent on government infrastructures, stamp charges on documents, service fees and court fines to the Rwanda Revenue Authority (USAID, 2004).

3.1.2 The revenue profile in the medium term

Expenditures are expected to peak at 22.9 percent of GDP in 2017/18, owing to infrastructure expenditures during the critical years of the second NDP (MoFPED, 2011). Therefore, increased efforts in domestic revenue mobilisation, purposively focusing on raising corporation tax revenues, widening VAT coverage and improving efficiency of tax collection will be imperative. In particular, tax administration will be a key driver of domestic revenue enhancement. Measures targeting sectors that currently contribute a large amount to GDP but little to tax efforts (e.g., agriculture, construction, hotels, real estate and education) will be critical.

However, intensification of efforts to improve tax revenue that involve increases in tax rates should carry out a cost-benefit analysis on the impact of each policy on tax payers and on the growth of private sector investments. More importantly, to minimise the waste of scarce resources, it would be prudent to improve the absorptive capacity of the 16 economic sectors at the same time as tax effort is improved.

3.2 Expenditure

The GoU plans to align budgets to plans by harmonising the domains of the Output Budgeting Tool (OBT) with the resulting frameworks of the NDP, Sector Development Plans (SDPs) and Local Government Development Plans (LGDPs). In particular, the goal is for key result areas, outcome areas and outputs to be uniform for both the NDP and the OBT (GoU, 2015). Ideally, the resource allocations under the MTEF and the BFPs must be consistent with the NDP's planned interventions.

Therefore, a revision of the MTEF, a formulation of the annual budget, policy making, and a mechanism for fund reallocation during the financial year are all required in the context of the NDP. Particularly, expenditures should be aligned to priorities in the NDP to ensure three elements: that interventions are adequate to support realisation of specific objectives within the existing budget; that adequate funding is provided to support performance in the selected programmes; and that account is taken of the MTEF shares for sectors in the NDP. This is a reformulation of the three (3)[3] budget outcomes stated in section

2. This becomes particularly important given the substantial financing requirements of the NDP. Tax payers, development partners and lenders will be particularly interested in knowing whether the budget apparatus can deliver on the three budget outcomes. This section discusses each of these objectives.

3.2.1 Budgeting for NDP Plans

Efficient and effective use of resources in the implementation of NDP's strategic priorities is largely dependent on the predictability of funding, which in turn also depends on the accuracy of the budget forecast. A fair budget estimate of the interventions is required to facilitate the derivation of the MTEF with its key components. Subsequently, it will be necessary for Uganda to put such a mechanism in place. In other words, planning ought to provide sufficient instruments for budgeting, especially in an environment where the value and the frequency of development aid are hard to predict.[4]

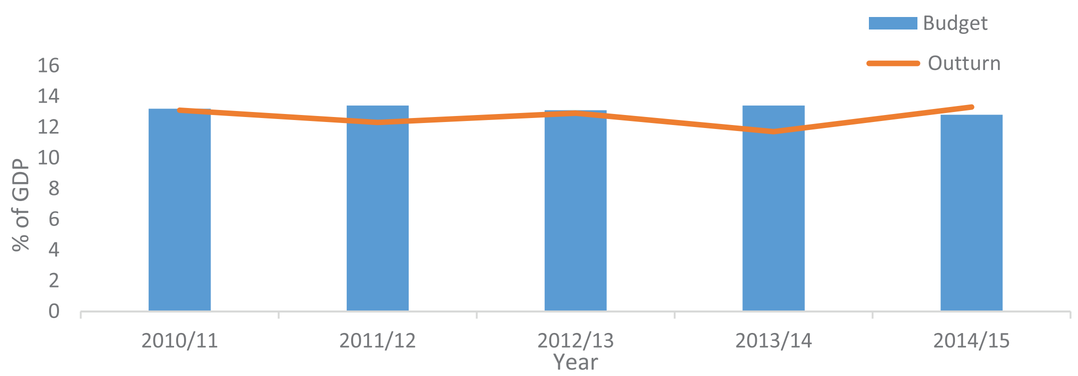
Figure 4 illustrates the variances between revenue forecast and outturn over the first NDP period. The outturn was well below the forecast in 2011/12 (by 1.1 percentage point) and 2013/14 (by 1.7 percentage point). In both cases, the share of revenue fell below the overly optimistic growth forecast of 0.5 percentage point per annum. Both years compound a predictable forecasting error with a temporary adverse shock.

MoFPED (2012) provides a host of explanations for the 2011/12 adverse shock: low real growth in sectors such as manufacturing and trade services; low voluntary tax compliance; increased prices, which dampened sales of taxable goods; low import volumes resulting from delays in clearance of goods at the Mombasa port; an increase in non-dutiable imports, especially from EAC region; and an increase in Bank of Uganda interest rates. In the year 2013/14, revenue performance was largely affected by the general slowdown in the rate of growth in the service and industrial sectors.[5]

While adverse shocks are largely unpredictable, the budget - outturn mismatch was predictable and systematic over the NDP. This was largely due to the assumption that revenues would grow at 0.5 percentage point regardless of the economic condition. This practice reflects an inability to accurately forecast revenue and has two effects: first, it undermines the budget credibility and the realisation of specific objectives of the NDP. Second, budget inaccuracies are associated with fiscal problems such as persistent deficits, excessive debt burdens and output-destabilising pro-cyclical trends (Calitz *et.al.,* 2016).

However, the tendency to overestimate revenue in developing countries may not be so much a manifestation of technical shortcomings as a reflection of the incentive system (World Bank, 1998). Most of the time, deficits are the results of provisions of the

Figure 4: Tax revenue during the NPD I period: Budget and outturn



Source: MoFPED (Background to the Budget, various issues) taxation law that effectively tax certain classes of taxpayers or particular types of activities differently from the chosen benchmark structure, but without quantifying and evaluating the impact of tax policies brought about by exemptions and incentives provided within the tax system (Jenkins *et. al*., 2000). Other times, budget ceilings are adjusted by stakeholders arbitrarily during the budget cycle. MDAs may adjust budgets to advance personal or institutional interests (Simson and Welham, 2014). More often, the executive has a tendency to make public promises in the budget that are subsequently not honoured in practice (Ibid).

Although the adjustment of ceilings during the planning and formulation phase – to reflect new information (such as inflation) – is justified, it needs to be kept to a minimum. As such, some of the above problems may not be the results of technical and capacity shortcomings; rather, they may be the results of inadequate incentives to demand information for the potential users of the outputs of the system, notably politicians and high-level public sector managers. Nevertheless, as shown in figure 4, the budget outturn was above the forecast in 2014/15, probably owing to a better forecast or to economic growth in easy-to-tax areas. It may also have been due to other factors, such as stable economic growth over the NDP; promotion of the private sector; and tax policy reforms such as increasing tax compliance, the elimination of discretionary tax exemptions and the strengthening of tax policies and laws in line with best practices.[6]

3.2.2 Budget response to inadequacy of funds

Variations between budgets and outturn call for revision of expenditures to accommodate the short falls. As mentioned earlier, the 2010/11 and 2013 shortfalls were characterised by two types of shocks: an over-optimistic view of revenue growth, which is permanent, and a temporary shock – a slowdown in economic activity. Ideally, the appropriate response to temporary shocks is to cut spending less than one-for-one, with some financial accommodations such as external financing, use of oil revenue, concessional loans and domestic borrowing (amongst other strategies) to finance the NDP. While this shortfall does not undermine fiscal discipline, the cuts in expenditures have significant negative effects on the efficient and effective use of resources in line with strategic priorities. Experience has shown that the pruning of expenditures, especially if they are recurrent, is difficult to achieve (Jenkins *et. al*., 2000).

Practices from OECD countries show that budget shortfalls, due to either changing macroeconomic or sector priorities, should be largely addressed through policy change, as opposed to budget cuts or budget increases (World Bank, 1998). As such, the Auditor General and Parliament play a role in enforcing budget ceilings, monitoring actual expenditures during budget execution, and anticipating divergences in aggregate discipline as early as possible. Practices that lead to fiscal indiscipline, such as supplementary funds, earmarking and quasi-fiscal activities, should be avoided. This level of oversight requires that information be available to Members of Parliament (MPs) during the appropriation stage.

Perhaps more important is that the executive arm of the government should be at the centre of resource allocation in accordance with the NDP's strategic priorities (see Box 1). This strengthens the legitimacy of policy decisions and the budgetary implications of the NDP. It is the executive's role to ensure that the NDP's demands at the aggregate and sectoral levels are consistent with available resources. Currently, most sectors are not adhering to budget ceilings. This stage of budgeting not only requires information and analysis but also good negotiation skills as well as a strong and assertive fiscal arm of the government. As discussed earlier, this calls for the balancing of restraint and flexibility, as well as for a third component of budgeting known as affordability.

3.2.3 Sectors and aggregate shares of budgets

The divergence of actual aggregate spending from budgets has been a persistent problem in Uganda's budget system. Campos and Pradhan (1996) identified this problem during the PEAP period. Table A1 (in the appendix) suggests that the budget system performed below expectations in controlling aggregate expenditures during the period of the NDP 1. The variances between the budgets and outturns in aggregate expenditures were in the double-digits. This suggests the presence of absorption constraints in the entire first NDP period. This was partly due to lack of expenditure control, which developed into arrears in

BOX 1: Characteristics of institutional arrangements that would support the NDP

- The vision of the executive arm of government must be well articulated in the NDP, and the executive must legitimize decisions made during the life of the NDP
- NDP policies can be implemented within the available resources over the medium term
- Legitimisation of NDP policies by involving civil society, the private sector and the legislature in NDP design
- Devolution of budget formulation to the sectoral level. However, the sector ceilings should be consistent with the aggregate fiscal constraints and other existing NDP policies
- External financing must be consistent with the NDP's strategic objectives

Source: Key Informant Interview

2011/12 and 2013/14 (see section 3.5). In addition, the changes in aggregate expenditures were volatile in all the years under review.

In regard to sectoral composition, priority sectors such as agriculture, education, tourism and health consistently spent below the budget. The shares allocated to agriculture (on average 3.6 percent) and health (on average 7.1 percent) have largely remained stagnant, most likely exacerbated by consistent under-spending in both sectors. This could be partially due to the extension of external financing to the health and agriculture sectors, which creates an incentive to reallocate domestic resources meant for those two sectors to other sectors (fungibility). Additionally, the agricultural sector is viewed as a private enterprise in government circles and thus should attract private investments as opposed to depending on public subvention.

At the operational level, the under-spending in the above priority sectors could have emanated from too little flexibility and too much restraint due to weak institutions and inadequate procurement plans (among other problems), which have often led to increasingly poor outcomes in these sectors. In Uganda, restraint is largely observed through the separation of development from the recurrent budget. Flexibility at the sectoral level can be supported by transparency and accountability. Transparency requires publicly available, clearly communicated, timely and reliable ex- post external audits and ex-ante performance targets. Thus, accounting officers must be accountable for executing the flexibility accorded to them. In summary, information on decisions, the rationale for those decisions, the outcomes of those decisions and their costs must be made publicly available. Therefore, reforms should seek to develop institutional mechanisms that support an effective public expenditure management system.

BOX 2: Summary of Fiscal Transparency Principles

- Fiscal reports should provide a comprehensive overview of the fiscal activities (stocks, flows and taxes) of the public sector and its subsectors, according to international standards
- Fiscal reports should be published in a frequent, regular, and timely manner
- Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent
- Fiscal statistics and financial statements should be reliable, should be subject to external scrutiny (audits), and should facilitate accountability
- Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects
- The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner
- Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability
- Economic and fiscal forecasts and budgets should be credible
- Governments should publish regular summary reports on risks to their fiscal prospects
- Inter-Governmental Fiscal transfers, and performance across the public sector, should be analysed, disclosed, and coordinated

Source: IMF (2016)

Transparency and accountability mechanisms not only provide incentives for a public expenditure system that observes constitutional requirements but also impose costs on politicians and bureaucrats for violations (see box 2 for recommendations from the IMF).

Evidence from South Africa suggests that performance contracts, as a way of managing the flexibility accorded to accounting officers in MDAs, have improved budget effectiveness (outcome) and efficiency (output). Accounting officers in South Africa are provided with incentives such as flexibility in budget management, individual salary incentives and linking of future funding to past performance (RSA, 2007).

Constraints on flexibility at the sectoral level in Uganda's budget system cannot be overemphasized, as too much flexibility, without appropriate checks and balances, is also problematic and could lead to abuse of power/ corruption. The ramification is that corruption thrives where public officials exercise substantial discretion in decision making and are not constrained by mechanisms that check arbitrary action. It should, however, be noted that the discrepancies in health and agriculture were not very large (single digit), which could have been a result of movement in aggregate expenditures and not necessarily flexibility constraints at the sectoral level.

In spite of the forecasting constraints experienced, Table A1 (appendix) and Table 1 indicate that the budget system has largely succeeded in reallocating resources from social to infrastructure spending, consistent with NDP priorities. The road sector received a significant but volatile increase in its share of the budget. The attempts to reduce the share of the budget allocated to the security sector were largely successful (from 25.3 percent in 2010/11 to 8.2 percent in 2014/15). The increase in the budget share allocated to education, while reducing the subvention to security, demonstrates the capacity developed by the budgetary system in planning and delivering changes in the sectoral composition of spending, consistent with the NDP. However, the ability of the tourism sector to absorb allocations was largely constrained, except in 2013/14. The road and works sector suggests

Table 1: Sectoral composition of government expenditure, 2010/11-2018/19: Wage, non-wage, and domestic development expenditure (% total expenditure)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Outturn	Outturn	Outturn	Outturn	Outturn	Budget	Projected	Projected	Projected
Security	25.3	13.7	9.5	8.4	8.2	8.8	8.6	8.5	8.4
Roads & Works	8.2	11.3	15.1	18.5	18.0	16.9	16.6	17.3	17.7
Agriculture	3.5	3.8	3.4	3.6	3.5	3.1	4.0	3.8	3.9
Education	13.5	16.9	16.7	15.4	15.0	14.8	14.9	14.4	13.8
Health	7.0	8.1	7.9	7.2	7.0	6.7	6.7	6.5	6.4
Water and Environ.	1.5	1.7	2.8	2.4	2.3	2.3	2.3	2.3	2.3
Justice, Law & Order	7.0	7.9	7.3	8.9	8.6	8.4	8.5	8.2	8.3
Accountability	4.1	4.6	6.2	6.8	6.6	7.4	8.6	8.8	8.9
Energy and Minerals	2.7	3.0	1.5	2.0	2.0	3.0	3.0	3.1	3.2
Tourism, Trade $ Ind.	0.4	0.4	0.8	0.6	0.6	0.7	0.6	0.6	0.6
Land, Housing &Urban	0.2	3.0	0.3	0.3	0.3	0.6	0.3	0.3	0.3
Social Development	0.3	0.3	0.3	0.5	0.4	0.7	1.6	1.6	1.7
ICT	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Public Sector Man.	8.6	9.8	9.2	8.8	8.5	6.7	6.7	6.7	6.6
Public Admin.	6.1	6.9	4.7	3.8	3.7	6.2	4.2	4.2	4.4
Parliament	2.0	2.2	2.9	2.5	2.5	3.0	2.6	2.6	2.7
Interest Payment Due	9.5	6.1	11.3	10.4	12.6	10.7	10.7	10.7	10.7
All sectors	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Roads and Energy	10.9	14.3	16.6	20.5	20.0	19.9	19.2	20.4	20.9
Education and health	20.5	25.0	24.6	22.6	18.5	21.5	21.6	20.9	20.2

Note: Data exclude externally financed development expenditures, arrears and promissory notes

Source: Authors calculation using data from MoFPED April, 2016.

improvement in the efficient use of funds and in the absorptive capacity of the sector. The discrepancies between budgets and outturns in the roads and works sector are in the single digits (5.8 percent in 2010/11 and 8.3 percent in 2014/15). However, they mask a decrease in effectiveness in delivering on sector outcomes. The Uganda National Roads Authority (UNRA) received a total of UGX 9 trillion to construct 5,147 km of roads during the first NDP, but only 1,500 km of roads were delivered[7]. Of this UGX 9 trillion, at least UGX 4 trillion were lost due to flaws in the procurement system; procurement and payment of contracts in foreign currencies, which put pressure on the local currency; premature failure of roads; high construction costs; and delayed implementation of reforms suggested by the Auditor General.[8]

It should be noted that variances between budgets and out-turns are not necessarily a bad thing, especially where such changes are documented and reported in the BFP. More often, the reallocation of funding may reflect an efficient response to unforeseen emergencies. However, there are some sectors that consistently had unfunded priorities throughout the NDP. This is seen in agriculture; health; justice, law and order (JLOS); and the social development sector. This suggests that the budgeting systems did not sustain the policy choices made in those sectors, and this becomes a rationale for budget reforms (see Box 3).

As mentioned earlier, the evidence suggests that there are constraints on containing the volatility in aggregate composition and on the ability to limit some sectors to their budgets. For example, in 2010/11, aggregate spending was 35 percent above budget, and it fell to 11 percent below budget in 2011/12. The security and JLOS sectors tended to overspend by way of reallocation through the supplementary budget. In 2010/11, the security sector overspent by 280 percent. This was largely due to the purchase of unbudgeted fighter jets by the government of Uganda in 2010/11 (Simson and Welham, 2014). This overspending was reduced to 13.6 percent in 2011/12. In spite of this reduction, the realised proportion was still large (double digit). This suggests that policy and planning decisions were not consistent with the realities of the budget constraints over the first NDP. The absence of fiscal restraint in the security and JLOS sectors suggests weakness in expenditure control, which is a common symptom of poor expenditure management. However, it could be

BOX 3: Key Aspects of Uganda's Budget Systems Requiring Reform

- Unpredictability of funding, from one year to the next and within the budget year
- Lack of authority and responsibility given to line managers to manage resources at their disposal
- Supplementary appropriations or arbitrary cuts during budget execution, with adverse consequences at the sectoral level
- Distribution of the gains from fiscal drag across new spending proposals
- Last minute, across-the-board cuts, including during budget execution. Weak decision making and last-minute cuts cause unpredictability of funding for existing government policy; this is highlighted for the centre by central budget agencies that are on the alert to identify and rake back unspent budgets
- Poor linkages between policy and resources between the centre and sectors
- A lack of clarity of purpose and tasks, and, therefore, poor information on the outcome of policies, and on the performance and costs of policies, programs and services because of poor linkages
- No linkages within government departments of policy advising, regulation, service delivery and funding, and an aversion to charging users
- Weakness in aggregate and sectoral expenditure control
- Absorption constraints at the sectoral level
- Too little flexibility and too much restraint in budget execution at the sectoral level
- Accounting systems are not well integrated with planning, budgeting, cash and debt management, and auditing systems

Source: Key Informant Interview

argued that the overspending in these two sectors was due to the country remaining in a state of defensive "war," owing to continued instability in the great lakes region and regular court awards in the justice system, respectively. Nevertheless, there is a need to impose hard budget constraints on overspending sectors such as security and justice. However, such constraints must be realistic and sensitive to sector policy demands, and they must involve a significant degree of predictability. The important task, therefore, is to obtain the right mix between restraint and flexibility in order to improve outcomes on the ground.

Some sectors, such as energy and minerals, tended to underspend during the implementation of the NDP. This is largely due to delays in key projects such as the Karuma, Isimba and Bujagali dams in the energy sector. The social development sector incurred budget cuts throughout the NDP. This could be associated with the growth of infrastructure projects, increased public sector employment and the creation of new districts, which meant that the annual budget process could not sustain many projects in other critical sectors such as the social sector. This put upward pressure on expenditures manifested as arrears (see section 3.5).

Therefore, realisation of the goals and objectives of the NDP will largely depend on the extent to which the variance between budgets and outturns is minimised. While this is a difficult task to accomplish, it is not entirely unique. A case in point is the performance achieved in 2011/12, where variances between sectoral budgets and out-turns were smaller compared with other years in the NDP period. Aggregate spending was 10.6 percent below the budget. Table A1 also presents the development budget both at the sectoral and aggregate level.

3.3 The Poverty Action Fund (PAF)

The PAF is a product of the 1997 Poverty Reduction Strategy Paper that made Uganda eligible for debt relief under the Highly Indebted Poor Country (HIPC) initiative. The PAF is a multi-dimensional approach to poverty reduction through the transfer of savings from debt relief to service delivery for the poor; the transfers occur through the agricultural, education and health sectors (Kuteesa et. al 2006). The budget allocates additional resources to priority sectors through the PAF. Additional resources are only allocated to programmes and projects that have the highest impact on unlocking the binding constraints on the transformation of the economy, as identified in the NDP. The additionality element is to prevent the substitution of domestic allocation in social sectors incentivized by the availability of debt relief through the HIPC initiative and external financing. However, the 'menu' of activities covered by the PAF is not static and has tended to expand over time. Table 2 illustrates total spending on all NDP sectors financed through the PAF regardless of whether they are financed externally or from domestic resources.

Outturns are reported for the NDP 1 period (2010/11 – 2014/15); budget figures are given for 2014/15 - 2015/16; and projections for 2016/17. Table 2 further suggests government willingness to rapidly switch spending patterns, which is consistent with the projects planned for in the NDP. The PAF share of spending on priority areas is projected to triple during the second NDP. The share of the PAF in total spending rose rapidly, from 11 percent to 39 percent, and is projected to fall modestly to 35 percent in the second NDP. One apparent feature is that the PAF out-turn for 2014/15 was 39 percent against a budget share of 30 percent. The implementation rate was 1.5 percent above the budget. This suggests that the priority NDP sectors were granted greater protection from cuts during spending squeezes. Therefore, one can conclude that the ring-fencing provided by the PAF succeeded in this objective. However, the surplus in outturn within the PAF programmes could have been a result of an overestimation of the total budget by the MTEF, and not necessarily evidence of the availability of extra funds.

Table 2 also presents the sectoral breakdown. The protection granted by PAF to roads and works and agriculture rose sharply. This is, to some extent, an artefact of the recent inclusion of national roads maintenance and construction vote function under the Uganda National Roads Authority (UNRA) and the enhanced role of local governments in the delivery of agricultural advisory services within the PAF. This action is consistent with the NDP strategies of increasing the stock and improving the quality of public physical infrastructure, and of facilitating the

Table 2: The share of PAF programmes in sectoral and total expenditures 2010/11-2016/17 (%)

Project/Programmes	2010/11	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17
	Outturn	Outturn	Outturn	Outturn	Budget	Outturn	Approved Budget	Projections
Roads and Works	43.0	36.8	40.3	99.4	94.6	100	94.6	70.9
Agriculture	11.8	74.8	97.4	65.2	71.5	74.9	77.9	90.3
Education	16.8	28.1	32.0	28.9	23.7	33.8	24.5	24.4
Health	60.2	61.9	57.2	58.3	52.7	59.4	53.3	50.0
Water and Environ.	37.9	82.8	94.2	89.1	87.1	100	87.2	75.9
Justice, Law and Order			28.5	22.3	32.9	32.1	36.5	47.8
Accountability		3.5	5.4	13.9	11.0	11.1	7.3	6.0
Energy				44.3	6.4	39.1	33.2	54.4
Tourism, Trade & Industry			6.2	48.9	51.0	56.9	47.4	60.9
Land & Housing				78.7	73.9	90.2	80.6	73.7
Social Dev.		35.4	67.4	54.6	30.5	51.8	30.8	88.6
ICT			100	3.1	2.4	9.7	7.4	6.9
Public Sector		8.8	10.5	12.2	10.8	12.5	11.0	9.4
Total[1]	11.0	19.3	24.8	38.9	29.8	39.0	32.9	34.6

Notes: Total expenditure as defined in Table 1.

Source: Authors calculations on data from MoFPED April, 2016.

availability of and access to critical production inputs, especially in agriculture and industry.

The PAF's contribution to education, social development and public sector management remained stable. While additional funds allocated to the health sector remained somewhat stable over the NDP, a sharp drop in PAF funding occurred in 2012/13. This was largely due to the withdrawal of donor funding over fiduciary issues. This sudden withdrawal led to a shortfall of funds within the PAF framework to support programs under the Ministry of Health[9], the National Medical Stores, and Community health management under the Kampala Capital City Authority (KCCA), the Uganda Blood Transfusion Service (UBTS), and national and regional referral hospitals. This raises questions about the capacity of PAF as a tool of additional budget allocation to support the NDP's priority sectors. The experience of the health sector suggests that, in the absence of donor funds flowing into the PAF, some expenditure would be frozen rather than financed locally through general resources available to the MTEF and, in the longer term, the NDP. This shortfall undermined the ability of the sector to scale up funding for drugs, implement infrastructure development and strengthen institutional arrangements through recruitment of key medical personnel and improvement of remuneration to ensure effective delivery over the course of the NDP.

3.3.1 Suggestions for future operation of the PAF in the second NDP

On the one hand, Uganda's budget design is not consistent with the existing weaknesses in expenditures in the key sectors earmarked by the PAF. Since the introduction of the Treasury Single Account in 2013, the budget reallocated resources from under-executing sectors to fund other priority/ disaster-related expenditures approved by way of supplementary budget. On the other hand, the key sectors are faced with challenges of absorption capacity and delays in implementation due to lengthy procurement procedures and changes in project design, amongst other reasons. The reallocation procedure suggests that unspent balances from PAF are not saved for use in the same sector through the MTEF but are reallocated to other overspending sectors, thus undermining the idea of ''ring fencing'' funds to key sectors. While the reallocation procedure may increase the incentive to absorb resources in the key sectors, it may have the reverse effect of creating *''a race to spend''* with no measurable output or outcomes. Therefore, it is prudent to strike a balance between the two objectives by creating a mechanism that does not punish non- performing key sectors by saving unutilised funds to be used by those sectors in the future.

Separately, the multiplicity of budgeting systems presented by PAF has the potential to complicate planning. The PAF retains the traditional budgeting element of additionality. Additionality is characterised by a tendency for the base funding of established MDA to be renewed every year regardless of performance (Robinson and Last, 2009). While the question of ''protection from budget cuts'' must be addressed, this can be done within the MTEF/NDP budget framework, provided all stakeholders are in agreement. It is cheaper and less stringent to identify, allocate and monitor additional resources for priority sectors within the MTEF/NDP framework. The duplicity presented by PAF undermines the MTEF's role as a budgeting tool for the NDP and, in some cases, the associated PAF monitoring may have questionable benefits. One can also argue that the beneficial stringent measures applied in monitoring the PAF program should now be replicated in the monitoring of all government programs within the NDP.

Nevertheless, the PAF may be attractive because it facilitates monitoring. Extensive monitoring results when different donors are responsible for particular grants. That is, each donor has an interest in funds being used as intended. While the PAF may facilitate control, its overall operation is likely to be costly. The government faces significant costs in managing and accounting for PAF funds. Also, the degree of donor interest in the PAF raises the question of local ownership of the programs.

3.4 Decentralisation

Local Governments (LoGs) are the frontline service delivery points of the NDP. They derive this mandate from the provisions of the Local Government Act CAP 243 and from other provisions and by-laws of the decentralisation policy. Through the intergovernmental fiscal transfer system, the Government of Uganda transfers close to 20 percent of annual government expenditure to local governments (Table 3). However, given the existing fiscal imbalances between the central government and the local governments (vertical fiscal imbalance) and the disparities among local governments in their abilities to provide services (horizontal fiscal imbalances), the role of budget support to local governments in implementing the NDP has increased over the years (Lakuma *et. al.,* 2016). In this subsection, the paper examines the scale and type of fiscal transfers and their effects on the implementation of the NDP.

Table 3: Fiscal transfers to local governments 2010/11-2016/17, (Billion UGX)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outturn	Outturn	Outturn	Outturn	Outturn	Budget	Proj.
Bn.							
Total expenditures	8,082.5	7,159.7	7,876.9	9,354.2	9,595.2	9,761.9	12,090.8
of which							
central government	6,991.2	5,829.7	6,697.4	7,733.9	7,764.7	7,816.3	11,334.3
transfers to local govt.	1,091.3	1,330.0	1,17km9.5	1,620.3	1,830.5	1,945.6	2,334.7
As a percentage							
Total expenditures	100	100	100	100	100	100	100
of which							
central government	86.5	81.4	85.0	8.1.7	81.2	80.1	80.7
transfers to local govt.	13.5	18.6	15.0	17.3	18.8	19.9	19.3

Notes: Net of arrears, promissory notes and externally financed development.
Data refer to releases from the central government to local govt. and do not fully reflect local govt.' total resources.

Sources: Authors calculations using data from MoFPED April, 2016.

3.4.1 Scale and Type of Fiscal Transfers

There has been a steady rise in the share of transfers in total government spending over the course of the NDP, as illustrated in Table 4. The share of fiscal transfers out of total expenditures rises sharply, from 13.5 percent in 2010/11 to a projected 19.3 percent in 2016/17. However, the overall transfers system largely depends on the device of conditional grants. Table 4 reveals that conditional grants accounted for more than 80 percent of the total transfer during the first NDP but are projected to gradually fall to 78 percent of the total in 2016/17.

While conditional funding is important in initiating or expanding important services, especially in the education and health sectors[10], until the service becomes established, there is the possibility of making the funding unconditional without affecting service delivery significantly. Apparently, the conditionality of the grant system had implications for the NDP, as illustrated below.

Table 4: Conditional and unconditional transfers to local government 2010/11 – 2016/17 (Billion UGX)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outturn	Outturn	Outturn	Outturn	Outturn	Budget	projection
Total transfers to local govt. of which	1,091.3	1,330.0	1,179.5	1,620.3	1,830.5	1,945.6	2,334.7
unconditional grants	178.2	219.6	100.3	234.3	240.5	281.0	530.1
conditional grants	913.1	1110.4	1079.2	1886.0	1590.0	1664.6	1814.7
		As a percentage of total district transfers					
Total transfers to local govt. of which	100.0	100.0	100.0	100.0	100.0	100.0	100.0
unconditional grants	16.3	16.5	8.5	14.5	13.1	14.4	22.3
conditional grants	83.7	83.5	91.5	85.5	87.9	83.6	77.7

Notes: Net of arrears, promissory notes and externally financed development expenditure.
Unconditional grants include equalisation grants
Data refer to releases from central government to districts and do not reflect local govt.' total resources.

Sources: Own calculations on data from MoFPED April, 2016

In summary, understanding decentralisation as the process by which spending powers, along with political authority and competences, are given to local governments, a number of issues appear in terms of accountability for the use of public funds, either transferred by the national government or legally assigned to local governments. Achieving budget balance or surplus in a weak institutional environment at the local government level implies a major exercise of co-ordination with respect to adequate fiscal rules. Fiscal discipline in a decentralised environment requires, at least, clear rules and a co-operative atmosphere. Permanent and transparent reporting structures are necessary for fiscal accountability and control in decentralised public spending, dealing not only with specific national grants transferred to subnational governments, but with the total spending and financing activity. Yet, fiscal rules are not sufficient to ensure the efficiency and effectiveness of budgets without the capacity to implement, which calls for the development of adequate human resources.

3.4.2 Effect of the fiscal transfers system on the NDP

During the NDP I, Uganda had 58 conditional and unconditional transfers that it provided to its LoGs. The grants evolved out of the need to ensure proper monitoring, accountability and control in the local use of centrally provided funds. However, the proliferation of grants increased the cost of monitoring and evaluating each of these grants during the NDP. Additionally, the funding was not sufficient to address problems (strategic goals and objectives) unique to each jurisdiction.

It should be noted that the government is consolidating the grant system in the medium term by merging the number of grants to LoGs from 58 to 20 grants (18 of the 20 grants are conditional). The reforms will involve: consolidation of grants under each sector, design of allocation formulae within a set of common principles and conditions for the release of consolidated grants. Reforms will also include a reduction in earmarking and replacement of transfer conditions with sector budget and management requirements.[11]

However, there are large-scale horizontal inequities in the amounts of transfers received by the local governments. Consolidation will benefit some of the recipient governments at the expense of others. While it is unlikely that capacity will be uniform across districts, grant consolidation is likely to increase recipients' flexibility in the use of transfers, and thereby will facilitate adjustment for the disadvantaged districts. Nevertheless, it will probably be necessary to remove conditionality, in the context of the Fiscal Decentralisation Strategy (FDS)[12], on the 20 proposed grants for some of the more ''advanced and mature'' districts during the NDP II (Box 4). Nevertheless, given that some of the 'advanced and mature' districts have become weak following splits that created other districts, the solution may not in changing the conditionality but rather in seeking increased revenues and fiscal viability. Therefore, the conditional protection is legitimate in lieu of adequate resources.

In addition, LoGs have become too numerous and too small to be viable. There were 114 districts in the year 2016, a large shift from 52 in the year 2002. Revenue mobilisation has not increased as fast. The existing resources have been spread so thin that a further expansion of government must be reconsidered. In the medium term, there is a need to identify ways and means of addressing fiscal incapacities, especially among the new LoGs. In this context, counterpart funding to existing mechanisms, such as equalisation grants, would be justified. Other activities that could integrate LoG activities into the NDP are the dissemination of the NDP's development strategy and investment plans at the LoG level; support to policy, planning, budgeting function and support services; and strengthening the ability of LoGs to deliver on transparency, monitoring and evaluation performance reports.

3.5 Arrears

Accumulation of domestic arrears undermines the budget process and by extension the NDP; it also acts as a conduit for misappropriation of public

Box 4: Proposed Consolidated Fiscal Transfer system, 2016/17

Development Grants	Type	%
Works Development Grant	Conditional	1.0
Education Development	Conditional	1.8
Transitional Development Education	Conditional	0.0
Health Development	Conditional	0.5
Transitional Development Health	Conditional	0.1
Water Development	Conditional	2.1
Transitional Development Water	Conditional	0.1
Recurrent Grants		
District Discretionary Development Equalisation Grant (DDEG)	Unconditional	5.5
Urban DDEG	Unconditional	3.4
Agriculture Wage	Conditional	0.7
Agriculture Non-Wage	Conditional	0.4
Education Wage	Conditional	42.5
Education Non-Wage	Conditional	9.9
Health Wage	Conditional	10.4
Health Non-Wage	Conditional	1.9
Water Non-Wage	Conditional	0.2
Support to water Services Non-Wage	Conditional	0.1
Social Development Non-Wage	Conditional	0.3
Support services-Public Sector Management	Conditional	5.5

Source: MoFPED (2015).

resources, exacerbating the challenges facing the overall management of the economy and service delivery (MoFPED, 2010). The problem largely emanates from budget cuts, non- implementation of budgets as approved, late release of funds, non-existence of prepayment systems and late payment of government contractors. In particular, non –payment of government contractors is extremely detrimental to the NDP's objectives of private sector growth and overall economic transformation.

Nonetheless, according to MoFPED (2010), the proportion of arrears to total expenditures decreased substantially - from 30 percent to 3 percent - within two years of publishing the debt strategy in 2010. However, Table 5 notes that the rate of payment is systematically slower than the new arrears being incurred. Intuitively, we can assume that the real value of arrears is also increasing. On average, new arrears are being accumulated at a rate of 4.2 percent

Table 5: Domestic stock of arrears, 2012/13 – 2014/15 (Billion, UGX)

		2012/13			2013/14			2014/15		2015/16
	Stock	Flows		*Stock*	Flows		*Stock*	Flows		*Stock*
	Jun-12	Incurred	Paid	Jun-13	Incurred	Paid	Jun-14	Incurred	Paid	
In billions of Uganda Shillings										
Total arrears	346.4	381.4	123.4	614.9	181.1	-	784.7	571.1	335.6	1,020.1
Utilities	25.5	53.1	-	78.6	44.5	-	123.2	-	93.4	29.8
Rent	4.0	19.9	-	23.9	1.5	-	25.4	3.2	-	28.7
Wages, Pension & Gratuity	0.7	34.8	-	35.5	33.6	-	69.0	145.3	-	214.4
Court Awards	102.6	36.1	53.2	85.5	1.3	-	25.3	391.0	-	477.7
Compensation	68.3	-	53.2	15.1	3.9	-	19.0	-	6.1	12.9
Subs. to Int. Orgs	45.2	115.8	17.0	143.0	0.7	-	143.7	-	28.2	115.5
Taxes and Deductions	69.9	24.5	-	94.4	86.4	-	180.8	-	161.2	19.6
Development	-	31.3	-	31.3	5.4	-	86.8	31.6	50.1	68.3
Other Recurrent	30.2	65.9	-	96.1	3.8	-	99.9	-	46.7	53.2
As a percentage of public expenditure										
Total arrears	4.8	4.8	0.9	7.8	1.9	-	8.4	6.0	3.5	10.6
Utilities	0.4	0.7	-	1.0	0.5	-	1.3	-	0.1	0.3
Rent	0.1	0.1	-	0.3	0.02	-	0.3	0.03	-	0.3
Wages, Pension & Gratuity	0.01	0.4	-	0.5	0.4	-	0.7	1.5	-	2.2
Court Awards	1.4	-	0.7	1.1	0.01	-	0.9	4.0	-	5.0
Compensation	1.0	-	0.2	0.2	0.04	-	0.2	-	0.1	0.1
Subs. to Int. Orgs	0.6	1.5	-	1.8	0.01	-	1.5	-	0.3	1.2
Taxes and Deductions	1.0	0.3	-	1.2	0.9	-	1.9	-	1.7	0.2
Development	-	0.4	-	0.4	0.1	-	0.4	0.3	0.5	0.7
Other Recurrent	0.4	0.8	-	1.2	0.04	-	1.1	-	0.5	0.6
Memorandum items										
Total public expenditure	7,159.7	7,876.9	7,876.9	7,876.9	9,354.2	9,354.2	9,354.2	9,595.2	9,595.2	9,595.2

Notes: (1) These figures are subject to revision.

(2) Total public expenditure is defined to include wage, non-wage recurrent and domestically financed development expenditure only.

(3) The total arrear figure for 2012/13 does not include: (a) pension and gratuity as the verification is still ongoing (b) arrears amounting to 799, 909,160 accrued to foreign missions as reported by the Auditor General. The figure included are those submitted by Accounting Officers and verified by the Internal Auditor at the MoFPED

(4) Taxes and Deduction stands for VAT and PAYEE

Source: Authors calculation using data from the MoFPED April, 2016.

of expenditure. The government needs to consider the idea of treating arrears as debt and thus include arrears in the first call of budget before any appropriation.

Table 5 also reveals that the bulk of arrears were incurred due to default on payments for utilities and wages, pensions and gratuities. Defaults on these payments account for 20 percent of total arrears and 1.5 percent of total expenditure annually. This could partially emanate from new districts created in the course of the financial year after the Parliament has appropriated funds under the mother (old) districts. This destabilizes the planning and execution of programmes in both the new and old districts. In most cases, it leads to salary arrears arising out of the constraints on transferring staff from the old to the new districts.[13] In instances where new districts are planned for at the time of budgeting, the operationalization of the decision by delaying the transfer of staff records can lead to delays in salaries even when resources are available.

Nevertheless, there is a significant reduction in the amount of arrears related to wages, pensions and gratuities, and utilities starting from 2014/15 (Table 5). This could be an effect of the pre-existing Commitment Control System (CCS), the extension of the Straight Through Processing (STP) system to pensions, and the Integrated Personnel and Payroll System (IPPS), which were implemented between 2010 and 2011. On the one hand, the STP is designed to ensure that monthly and pension gratuities are paid directly to beneficiary bank accounts to avoid further accumulation of pension arrears. On the other hand, the IPPS is expected to remit wages in a timely manner and automatically transfer retired public officer details to the pension's payroll.

However, the violation of the rules embedded in the CCS, STP and IPPS will continue to exacerbate the arrears problem. Furthermore, budget control systems have very limited effects on arrears accumulated in an extra budgetary manner (Bevan and Palomba, 2000). Although all arrears have budget implications, some arrears, such as court awards and compensation, arise out of a litigation process and are not easy to predict using budget systems because they involve a commitment to bear liability for a past dispute, as opposed to excesses on current expenditures. As shown in Table 5 this category of arrears, especially court awards, is rising (4 percent of total expenditure in 2014/15). The government could attempt to adopt the private sector practice of provisioning for anticipated cases that may be resolved in the coming year. However, this has to be done with caution because such a fund could be open to abuse. In the medium term, the government should plan to resolve the already existing court awards that are accumulating unnecessary interest that adds to their cost. Given that the government has established a credible database of valid claims, Flynn and Pessoa (2014) suggest that the prioritisation of arrears clearance should be based on a transparent criteria, depending on the nature of the arrears. Particularly, repayment should be economically sensitive by first prioritizing the payment of the salaries of low-income workers, pensions, and social benefits. Older obligations should have priority over newer obligations. Arrears that accrue interest and penalty charges should have priority. Arrears that may result in legal action, disruption of essential services, or cost escalation of future supplies to the government should be prioritized. Payment of foreign currency denominated debt should be prioritized if domestic currency devaluation is outpacing domestic inflation. The government should prioritize the clearance of intra-government debts, as this can be done administratively though the annual budget at minimal net cost.

3.6 The Development Budget and Donor Financing

The sector development budget is key to the promotion of selected strategic enterprises and to the funding of public investment proposals under the NDP. However, the domestic component of Uganda's budget is dominated by recurrent expenditures, especially the wage function. For example, the small allocation to the development budget in the education sector is primarily driven by the large allocation to wages, which comprises close to 60 percent of all cost allocations for the sector (GoU, 2010). This is largely because of low domestic resource mobilisation and partly because donors tend to prefer financing the development budget as opposed to recurrent expenditures. As such, development partners will continue to play a major role in financing public expenditures in Uganda over the course of the NDP (GoU, 2015). This section examines the relative contributions of the domestic and external sources of development financing, briefly considers donor programme finance, and concludes with an informal comparison of implementation rates.

3.6.1 Development budget finance

Over the years, Uganda's development budget has exhibited an over reliance on donors to finance most of the country's development activities. This is partly a product of the separation between the recurrent and development components of the budget. Critiques of this system argue that the disunity of the budget promotes indiscipline in resource allocation, affordability and predictability (World Bank, 1998). Nevertheless, the separation of the two components is often for operational purposes, as well as for strategic reasons aimed at avoiding too much concentration on the present (consumption) at the expense of building critical infrastructure and other structures for the future. For example, in the roads sector, construction and upgrading are part of development while maintenance is recurrent. The failure to balance these two necessitates the separation of the budget into two components. This separation does not necessarily disregard the fact that budgets are one element of the whole.

Based on table 6, the shares of the development budget suggest a rapid expansion of the domestically resourced component of development financing during the NDP. This expansion is accompanied by a significant reduction in donor interest in financing the agriculture; water and environment; tourism and trade; education; law and order and public administration sectors in the medium term.

Table 6 reports the budgeted and projected financing mix for both the total development budget and the main sectors for 2014/15 – 2017/18. Table 6 suggests that the MTEF development budget projection is inconsistent with policy planning and the changing aid architecture. For example, the Water for Agricultural Production (WfAP) vote function requires funds in excess of UGX 120 billion per annum, most of which is expected to be obtained from donor assistance. The Dairy Development Authority (DDA) only receives a recurrent budget but has a number of issues under the Dairy Development Strategy that call for a development budget.[14] Funds for the construction of irrigation schemes have largely been planned under the donor development budget, which will depend on donor commitments.

Table 6: Budget financing of sectoral development expenditures 2014/15-2018/19 (Billions UGX/ %)

		2014/2015	2015/16	2016/2017	2017/2018	2018/2019
		Outturn	Budget	Projections	Projections	Projections
Security	Domestic	81.2	140.0	140.0	168.1	193.3
	External Finance	-	562.3	465.4	380.4	246.5
	Per cent domestic	*100*	*19*	*23.1*	*30.6*	*44.0*
Roads and Works	Domestic	1,318.9	1,568.4	1,517. 8	1,821.3	2,094.6
	External Finance	4.6	1,254.8	1,775.2	3,048.0	3,185.1
	Per cent domestic	*99.7*	*55.6*	*35.2*	*46.1*	*39.7*
Agriculture	Domestic	209.7	234.3	331.9	381.1	438.2
	External Finance	3.4	91.7	146.5	170. 9	175.6
	Per cent domestic	*98.4*	*71.9*	*69.4*	*69.0*	*71.4*
Education	Domestic	140.1	164.7	164.7	196.6	213.9
	External Finance	35.8	200.4	388.7	282.0	157.8
	Per cent domestic	*79.7*	*45.1*	*29.8*	*41.1*	*57.6*
Health	Domestic	69.7	86.2	86.7	186.2	214.2
	External Finance	52. 7	451.9	580.6	78.5	84.0
	Per cent domestic	*56.9*	*16.0*	*13.0*	*70.3*	*71.8*
Water and Env.	Domestic	193.5	229.0	226.9	272.3	313.1
	External Finance	36.8	233.3	243.6	21.8	10.6
	Per cent domestic	*84.0*	*49.5*	*48.2*	*92.6*	*96.6*

		2014/2015	2015/16	2016/2017	2017/2018	2018/2019
		Outturn	Budget	Projections	Projections	Projections
Law and Order	Domestic	282.0	282.4	282.4	334.2	388.5
	External Finance	-	-	-	-	-
	Per cent domestic	*100*	*100*	*100*	*100*	*100*
Accountability	Domestic	240.1	455.3	586.0	703.0	808.0
	External Finance	0.8	97.6	92.8	41.2	17.6
	Per cent domestic	*99.7*	*82.3*	*86.3*	*94.5*	*97.9*
Energy and Minerals	Domestic	183.0	355.0	354.9	425.8	489.7
	External Finance	8.8	2,461.7	1,988.8	2,358.2	2,065.6
	Per cent domestic	*95.4*	*12.6*	*15.1*	*15.3*	*19.2*
Tourism and Trade	Domestic	21.8	32.8	27.8	33.3	38.3
	External Finance	0.0	0.8	1.4	8.0	11.2
	Per cent domestic	*100*	*97.6*	*95.2*	*80.6*	*77.4*
Land and Housing	Domestic	17.3	53.3	16.3	19.5	22.4
	External Finance	-	93.5	191.2	168.0	109.3
	Per cent domestic	*100*	*36.3*	*7.9*	*10.4*	*17.0*
Social Development	Domestic	17.3	50.7	150.7	178.7	205.5
	External Finance	-	-	-	-	-
	Per cent domestic	100	100	100	100	100
ICT	Domestic	2.7	2.6	2.6	3.1	3.6
	External Finance	-	44.3	2.6	12.6	31.7
	Per cent domestic	100	5.5	50.0	19.8	10.2
Public Sector Man.	Domestic	149.7	175.6	175.6	215.0	247.3
	External Finance	13.2	105.4	169.7	215.1	267.2
	Per cent domestic	91.9	62.5	50.9	50.0	48.1
Public administration	Domestic	23.6	81.3	51.2	58.5	67.2
	External Finance	-	-	-	-	-
	Per cent domestic	*100*	*100*	*100*	*100*	*100*
Parliament	Domestic	9.0	14.9	14.9	14.9	17.1
	External Finance	-	-	-	-	-
	Per cent domestic	*100*	*100*	*100*	*100*	*100*
Total development	Domestic	2959.6	3938.5	3979.7	5011.6	5758.5
	External Finance	156.1	5597.7	6046.5	6784.7	6362.2
	Per cent domestic	*94.9*	*41.3*	*40.5*	*42.8*	*47.5*

Source: Authors calculations on data from MoFPED April, 2016.

In the health sector, the external development budget component is projected to increase significantly in the same year and then gradually reduce in the medium term (Table 6). In this regard, the domestic development budget for the health sector is expected to remain at 13 percent in 2016/17. Much of the donor financing is geared towards the development of health systems. The funds will be allocated with the aim of functionalizing existing facilities, enhancing maternal and reproductive health and improving the referral hospital (MoFPED, 2015). The majority of district hospitals urgently need repair, yet they do not have a development budget. The UGX 4.6 billion allocated annually for the rehabilitation of the district infrastructure is insufficient to cover comprehensive rehabilitations. The anticipated World Bank funding for Health Systems Strengthening is anticipated to renovate 17 General Hospitals. However, there are 41 general hospitals that require urgent repair at an estimated cost of UGX 1.2 billion each (ibid). This calls for exploration of alternative means of financing the key NDP projects in light of reduced donor interest in some critical sectors such as health and agriculture. The overreliance on donor funds for development finance in a number of sectors poses significant fiscal risk in the event of donor withdrawal. In 2016, the World Bank cancelled all its support to Uganda, with devastating effects on infrastructural projects in sectors such as transport, agriculture, energy and health.

Due to the scarce availability of public sector funds, leveraging existing resources with those of the private sector has been a popular modality of alternative financing in many developing countries. In this context, public–private partnerships fill the gap in financing development (UNCTAD, 2016). Given increased migration, remittances have grown remarkably as a source of financial support to countless families. At the same time, and recognizing the scope and stability of these flows, governments and financial institutions have designed financial instruments to tap diaspora savings and leverage remittances for development finance (Ibid). The curtailing of illicit financial flows (Ibid) and utilising the existing infrastructure efficiently before building new infrastructure will be an imperative strategy in the face of scarce resources (Sy, 2015).

3.6.2 Aid flows

The GoU receives aid flows largely through three modalities: project support, budget support and support for policy purposes[15]. The government encourages development partners to support NDP programs through the budget framework, as opposed to support for programmes and projects. However, some development partners provide support directly to NGOs and to some districts outside the budget without sharing information on the level of support and the activities being funded. This undermines the planning process and more often leads to duplication and waste of scarce resources. Nevertheless, it is often argued that donors' preference for projects as opposed to budget support largely emanates from concerns about the capacity gaps of host governments in implementing programmes cost efficiently and effectively (Jelovac and Vandeninden, 2008). Donors usually maintain control of the funding using project-financing mechanisms. However, due to limited harmonisation and coordination, project aid may yield undesired effects.

Another challenge faced by the NDP in regard to external financing is delays or non - disbursements of expected aid inflows, which negatively impacts the planning and uninterrupted implementation of development programs. For example, only 30 percent of donor project support for 2014/15 was disbursed in the first half of the financial year.[16] Such delays and non- disbursements are also partly caused by the failure of sector ministries to take into account agreed-upon conditionality (triggers and benchmarks before disbursements are made) in agreements made with development partners. Additionally, poor execution of planned expenditures and poor absorption capacity by the concerned ministries can lead to delays in and/or cancellation of aid. It is likely that the external development budget did not match the levels appropriated for reducing budget deficits.

Table 7 shows the unpredictability of outturns, budgets and projections over the course of the NDP I and that these factors could not be incorporated into the budget or used as a basis for planning the second NDP. The lesson of this is that the impact of external development financing will depend on its predictability and, to the extent that it is not provided, on the ability of the Government to insulate itself from this unpredictability.

3.6.3 Implementation rates

The implementation rate for the domestic development budget was at approximately 82 percent during the NDP I. The figure for the external financing counterpart

Table 7: Budget support 2010/11 – 2017/18 (Billions UGX)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	O/Turn	O/Turn	O/Turn	O/Turn	O/Turn	Budget	Proj.	Proj.
Grants	891.0	1,129.3	936.2	702.5	930.8	1,281.1	1,124.7	1,122.0
Loans	878.0	1,356.5	1,627.8	1,128.4	1,177.1	2,450.7	3,087.2	2,105.6
Total	1769	2,485.8	2,564	1,830.9	2,107.9	3,731.8	4,211.9	3,227.6

Source: Data from MoFPED April, 2016

was approximately 65 percent. This suggests that the external development budget may not match the appropriated levels during the NDP II. If a similar level of realisation is achieved in 2016/17 and 2017/18, there will be a very significant reduction in the level of programme financing received. Based on information in Table 7, this is projected at UGX 4,212 and UGX 3,228 billion, respectively (65 percent of that would be UGX 2,737 and UGX 2,097 billion, respectively). These amounts are almost the same as the out turns for 2014/15.

3.7 The Budget in a Macroeconomic Context

This section discusses the level of government prudence during the NDP using the budget deficit as a point of reference.

3.7.1 A different perspective on the budget deficit

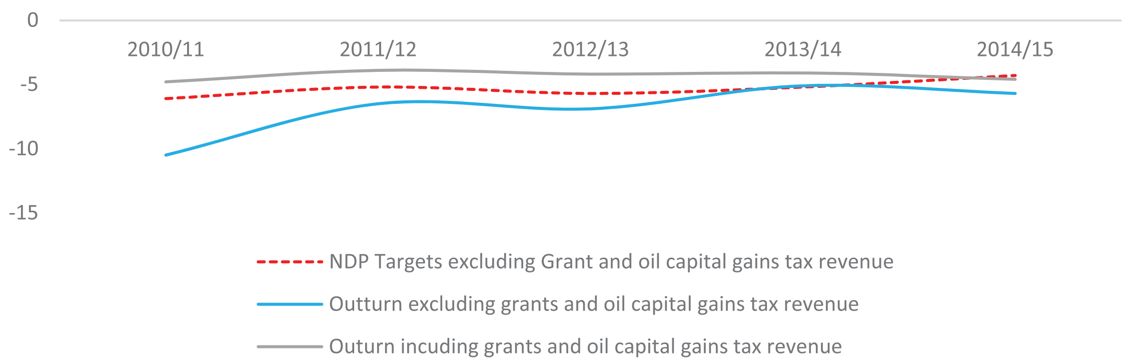
The investment requirement, coupled with revenue collections that were below the set targets, necessitated an expansionary fiscal stance during the NDP period. This resulted in fiscal deficits above NDP targets. Figure 5 shows that deficits were 10.5 percent of GDP compared to the NDP target of 6.2 percent in 2010/11. However, the gap between targets and out turns tends to narrow in the later years of the NDP.[17] For example, this also highlights the need for *"rules of the game"* to minimize the temptation of having large deficits in the hope that they will be financed by oil revenues, as this would pose risks for fiscal sustainability in the medium to long term (Doshi *et. al.,* 2015).

To some extent, this justifies the need for Uganda to outsource grants and concessional lending, on the condition that the lending is contracted at an interest rate below the forecasted GDP growth rate, with limited conditionality and, most importantly, subject to any practical limits on absorption (Bevan and Palomba, 2000). However, in taking a stance to expand debt, Uganda may not apply for domestic deficits due to circumstances concerning the money supply, inflation targets, private domestic credit, foreign exchange reserves, and the evolution of the velocity of circulation (Ibid).

3.7.2 Projected budget and primary balance during the NDP II

Over the course of the NDP II, the overall fiscal and primary deficits are projected at an average of 6.1 and 3.8 percent, respectively (Figure 6). This is net of arrears, as discussed earlier. The outlook for the expansion of domestic credit – consistent with an

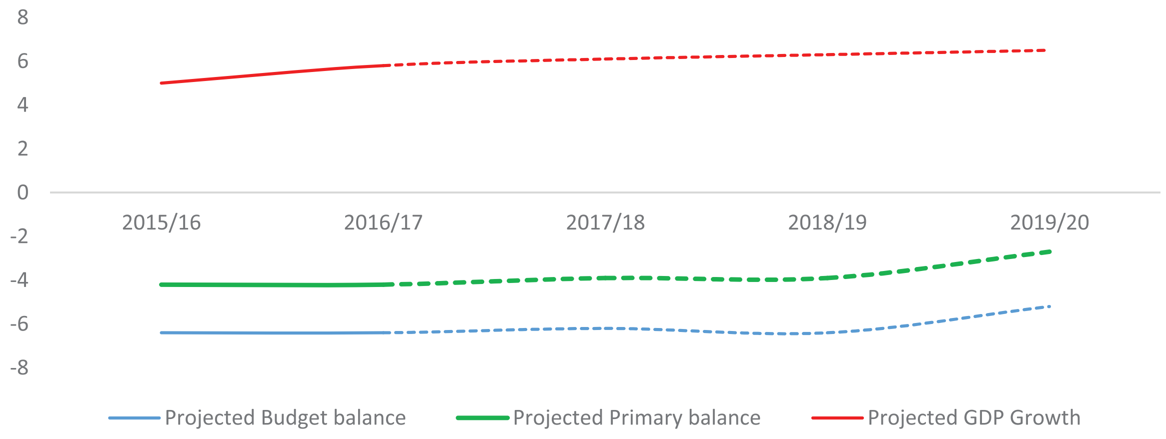
Figure 5: Government fiscal balance 2010/11-2014/15, (% of GDP)



Source: Authors calculations on data from MoFPED April, 2016.

deficits, including grants and oil capital gains, were 4.8 percent of GDP in 2010/11, which is less than the 5 percent medium-term target for fiscal prudence. This illustrates the favourable impact of not only grants but also oil revenues on the fiscal deficit and points to the potential significance of oil revenues in financing fiscal deficits. This calls for fast-tracking oil activities to finance NDP-generated fiscal deficits. However, average growth rate of 5.9 percent, an inflation rate of 5 percent and a foreign exchange reserve worth 5 months – is somewhat subdued. This is expected to constrain the much-needed credit for private investment expansion and hence provides a strong case for the reduction of the deficit over the medium term.

Figure 6: Outturn and Projected (in dots) Fiscal and Primary Balance (% of GDP) and Real Growth Rates



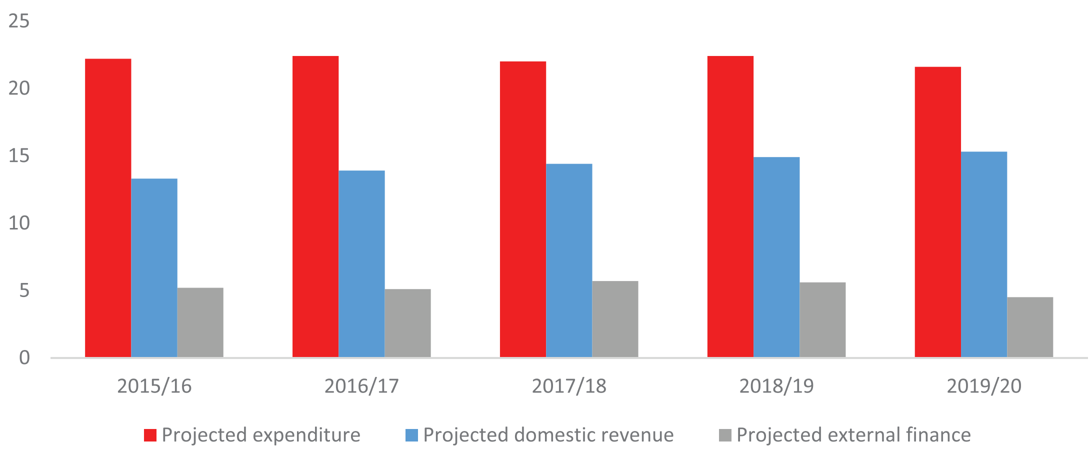
Source: Own calculations on data from MoFPED April, 2016.

Total expenditure is projected to average 22.1 percent of GDP over the second NDP, of which external finance will account for 5.2 percent (Figure 7). An analysis of budget performance suggests that this is the level of resources that Uganda can absorb efficiently in the medium term. However, a funding expansion is justified in the long run - after building capacities through learning-by-doing and the on-going public finance reform - through financing mechanisms such as concessional loans and the non- inflationary expansion of domestic credit.

3.7.3 The most recent past fiscal year

Economic outturns can be fluid even with the best projections. The year 2015/16 is a quintessential example. Projected revenue outturns were revised to 12.4 percent of GDP, 0.8 percentage points lower than earlier estimates. This was partially due to adverse effects in the economy, largely explained by the instability of the Uganda shilling against the dollar and by uncertainty about inflation. The shilling depreciated by 5 percent in August 2015 and recovered in November 2015 before depreciating again by 3 percent in January 2016 (Figure 8).

Figure 7: Projected expenditure and domestic and external finance (%of GDP)



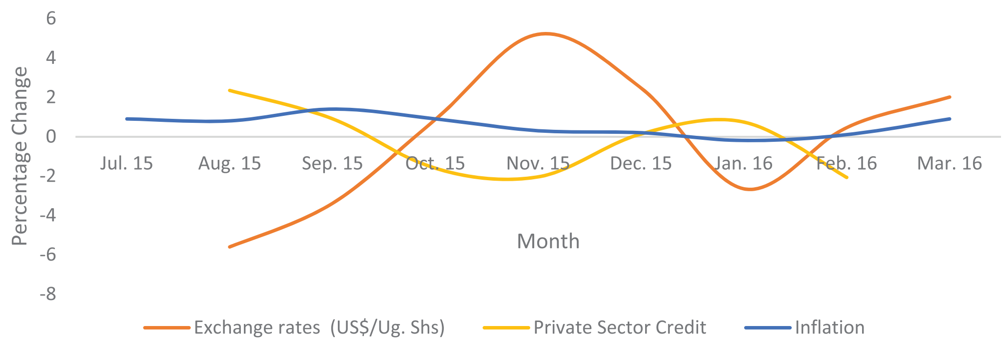
Source: Own calculations on data from MoFPED April, 2016.

There was a modest co-movement between the exchange rate and inflation, which dampened private sector credit growth. Apart from 2 percent growth in August 2015, private sector credit grew at less than zero or at a negative rate for the rest of 2015/16. This could explain – and be explained by – the low level of business activity (both exports and imports), leading to the lower-than-expected revenue collection. The policy response to this should be sensitive to the adverse shock component of the revenue shortfall (see section 3.2.1). As such, the budget cuts should be accompanied by some financial accommodation. One key response initiated by the MoFPED included a directive for all projects and contracts funded by the government of Uganda funded to be valued in Uganda shillings.

(SDG) (GoU, 2015). To the extent that donors are accountable, the government, for its part, needs to be accountable as well, as this aspect has also caused volatility in loans and grants.

Therefore, development partners are encouraged to, as much as possible, support government programmes through the budget as opposed to supporting programmes and projects. The introduction of sectoral ceilings for the development budget, including donor projects, will ensure that project funds are subject to the same process of prioritisation. This suggests that additional projects are bound to have an opportunity cost for the sector in terms of transaction costs and flexible resources for the sector's priorities. Development partners who provide support to NGOs

Figure 8: Foreign exchange, private sector credit and inflation 2015/16, (monthly % changes)



Source: Bank of Uganda April, 2016

3.8 Some General Procedural Issues

This section highlights some budget procedure issues noted in the NDP.

3.8.1 Development partners

The NDP II, and the budget mechanisms in place to implement it, provides a strong basis for determining what type and quantity of aid is required, and in which areas the government is instituting mechanisms that provide assurance of the implementation of the strategies. As such, development partners should be accountable to deliver on their commitments in responding to the specific requirements of the government. The nature of partnership also reflects relationships beyond grants and loans, to include commitments made in the Millennium Development Goals and the recent Sustainable Development Goals

and local governments directly outside of the budget are encouraged to share information on the level of support and the activities being funded to ensure a fairly accurate assessment of the micro and macroeconomic effects (ibid).

3.8.2 Costing and monitoring programmes

Table 8 shows that for the period 2015/16 to 2019, the projected budget is estimated to be 98.5 percent of the second NDP requirements for all requirements taken together and 82.8 percent for priority sectors (Roads and Work, Agriculture, Education, Health, Tourism, and Energy and minerals). However, Health (49.2 percent) and Tourism (48.6 percent) are projected to receive the lowest funding relative to previously costed estimates during the NDP II. The overall budget estimates for non - priority sector requirements are higher (104.5 percent of costing) than those of priority sectors. This largely emanates from the government's plans to gradually reduce investment in transport and energy (between 6-8 percentage points of the share of the total budget) in the final two years of the NDP II (GoU, 2015). This also suggests a gradual shift in budget composition toward improving the agriculture, education and health sectors in the long term.

Table 8 also shows many budget compositions that are above cost estimate (above 100 percent). This was largely due to deviations of costs from the assumptions made during costing. The variations are subject to inflation, depreciation of the shilling for programs priced in foreign currency, and delays in implementation of investments in the NDP I, leading to cost overlays in the NDP II. Major changes in sector resource allocation also lead to budgets being above cost. For example, construction of piped water in urban areas, restoration of degraded water sheds and construction of water surface reservoirs will lead to increased allocations to the water and environment sector. The budget overestimates in the Justice, Law and Order sector (JLOS) likely emanates from the need to expand access to JLOS services in rural areas and for economically disadvantaged groups, to address the functionality of institutions, to improve public perceptions of corruption, and to construct office accommodations.[19]

In addition, budget analysis in Uganda largely focuses on the relationship between budgets and performance. The greater challenge is for the government to improve the methodology used to compile budgets using more sophisticated forms of activity-based costing, thereby strengthening the link between budgets and performance targets. Budget increases should be justified not only by performance but also by absorption capacity. While the budget framework paper does provide a mechanism that establishes the unit cost for budget calculation (forecasting) and defines actions and medium-term strategy to improve sector outcomes, there is no indication that this information is used to influence the choice of performance targets.

Table 8: Budget projections as a proportion of public sector costing 2014/15 – 2019/20, (%)

	Wage	Non- Wage	Recurrent	Dev't.	Total[18]
Security	72.9	114.1	91.5	97.4	93.5
Roads and Works	74.4	93.7	92.4	121.6	117.1
Agriculture	32.7	74.9	58.6	80.9	74.4
Education	67.2	74.9	69.4	59.7	67.3
Health	68.3	119.6	88.8	27.1	49.2
Water and Env.	69.5	108.1	92.7	109.6	107.4
Law and Order	414.7	131.3	273.0	111.7	227.9
Accountability and Parliament	76.1	109.6	96.2	256.3	147.7
Energy and Minerals	79.9	31.7	42.3	84.1	83.7
Tourism and Trade	33.1	106.4	27.8	65.5	48.6
Land and Housing	55.9	92.7	82.5	121.2	114.3
Social Dev.	52.0	119.8	105.2	445.9	256.8
ICT	79.7	115.8	99.1	80.8	86.8
Public Sector Man.	59.1	66.3	63.7	95.5	72.5
Public administration	374.5	91.4	122.7	64.5	114.6
Interest due		125.8	125.8		125.8
Priority Sectors[1]	65.5	88.9	75.5	86.3	82.8
Other MTEF Prog.[2]	65.7	109.0	96.5	126.6	104.5
Total development	104.1	102.9	103.4	94.0	98.5

Notes: 1) Priority sectors are Roads and Transport, Energy and Mineral, Education, Health, Tourism, and Agriculture; and 2. MTEF Programs are other sectors other than priority sectors

Source: Own calculations on data from MoFPED April, 2016.

4. CONCLUSION AND POLICY OPTIONS

This study observes that institutional weaknesses undermined budget outcomes during the first NDP. These weaknesses were transmitted at three levels of budgetary outcomes—aggregate fiscal discipline, allocative efficiency, and operational technical efficiency. The discrepancies between budget and outturn were largely the consequences of revenue forecast errors, mainly driven by shortfalls in domestic revenue and changes in donor financing. While the adverse shocks driven by economic conditions were largely unpredictable, the permanent shock – caused by an assumption that the budget would grow at 0.5 percentage point – was predictable and undermined budget credibility. However, there is room to increase tax revenue by minimising tax exemptions, supporting the growth of the private sector to expand corporation tax revenues, widening VAT coverage and improving the efficiency of tax collection.

There were large variances between revenue forecasts and out-turns over the NDP at both the aggregate and sectoral levels. The variances between the budgets and outturns in aggregate expenditures were double-digit in all years of NDP I. At the sectoral level, priority sectors such as agriculture, education, tourism and health consistently spent below their budgets. This was a consequence not only of absorption capacity but also, more importantly, of too little flexibility and too much restraint, which have often led to increasingly poor outcomes in these sectors. Restraint is largely observed through the separation of development from the recurrent budget. Nevertheless, Uganda's budget system has largely succeeded in reallocating resources from social sectors to infrastructure spending, consistent with NDP priorities. However, there is room for improvement in sectors such as JLOS, which tended to overspend in some years by way of reallocation through the supplementary budget. The security budget will remain volatile, and hence it is difficult to recommend stable financing, as supplementary budgets for defence and security come with unforeseen threats. However, there is room for parliamentary scrutiny in the classified nature of spending. This study observes the following action points: In light of the revenue constraints and reduced donor support in the short and medium term, the government needs to strengthen the bid to increase domestic resource mobilisation, reduce the size of the informal sector and prioritise public spending and improvement of value for money through the implementation of efficiency measures aimed at linking public spending more closely to outputs. In this regard, the government should spend on only what it can afford over the medium term. While spending should match NDP priorities and produce intended outcomes at least cost, the government should also reduce the priorities of the NDP as observed in the midterm review of the NDP.[20]

Stability in funding of existing policy is important for efficient and effective implementation of policies and programs. Therefore, a timely flow of funds to programs and projects is imperative for fiscal policy. This calls for balance between the short- and long- term goals of the NDP, which requires an unbiased forecast of both revenues and expenditures. An increase in the commitment to the predictability of both policy and funding will enable ministries to plan ahead and to sustain programs.

Unbiased budget estimates will demand that the forecasting of revenues and the planning of expenditures be a preserve of the MoFPED. This will reduce bias in the determination of future budget estimates. Politicians should provide guidance, not directives in the form of ultimatums that are difficult to adopt and implement. Nevertheless, think tanks and budget experts should provide independent fiscal forecasts, which will serve as benchmarks for budget estimations done at MoFPED.

However, forecasting is not possible without reliable data. This calls not only for capacity building in revenue and expenditure (fiscal) forecasting but also for the development of information/ statistics, which are key to the development of a strong budgeting system. On the one hand, reliable and timely information on expenditures and costs is crucial to decision making and effective expenditure control. On the other hand, timely audit features, such as internal and external audits, are crucial for generating information for decision making. Other types of information required to support technical and institutional decision making include the cost of existing NDP policies over the medium term; outputs and outcomes of NDP policies; and cost, output and outcome information for new NDP policy proposals.

MoFPED and NPA need to take the lead in putting in place the basics to support all three functions of the budget - Aggregate fiscal discipline, allocative efficiency and technical efficiency. This can be done by building institutional mechanisms that support and demand a performance orientation for all dimensions. This calls for a balance between control (restraint) and delegation (flexibility). Introducing mechanisms to promote transparency and accountability, both of which are key elements of the control framework, will check the abuse of delegation and generate demand for information. In the longer term, the mandate of accounting officers at the sectoral level needs to be expanded to include more autonomy in the implementation of NDP projects. Abuse of such a mandate can be checked by performance contracts that reward performance and punish non- performance.

Other mechanisms that balance flexibility and restraint in decision-making include competitive pressure from markets, as well as the participation of think tanks and civil society in the budget process. In the government sphere, such mechanisms include the checks and balances provided by the three arms of government: executive, legislative and judicial. Within the ministries where budgets are formulated, the mechanisms include budget ceilings, prioritisation of activities, availability of information on budgets and outcomes, and accountability.

In regard to planning institutional set up, the key strategic decisions of the NDP should be more centralized and operational/implementation decisions more devolved. On the one hand, planning and budgeting and policy reform should be the jobs of MoFPED and NPA. This will enhance the ability of the two institutions to support and demand performance. On the other hand, sectors, agency-level bodies and local governments should focus on developing outcome and output information, supported by cost information. In other words, strategy should be restrained/ centralized and implementation flexible/devolved. This reform will require the development of coordination mechanisms at two levels: first, between MoFPED and NPA to manage the tight/restrained strategies; and second, within and among sectors, agencies and local governments to manage the flexible implementation framework.

Parliamentary oversight over NDP policies is crucial for the success of the plan. As such, information on the costs, expenditures, outputs, and outcomes of individual policies must be readily available to parliament. This will enable an ex post reconciliation of budgets and outturns at the aggregate and sectoral levels. In line with this, a culture of consultation needs to be developed within and outside the government (think tanks, academia and civil society). This will facilitate adequate debate on NDP policy proposals among all stakeholders. It is equally important to ensure that supplementary budgets are subject to the same rigorous scrutiny. This study provides a broad framework for thinking about budgetary outcomes in Uganda. However, we acknowledge that this is not panacea on this subject. More policy research is needed.

REFERENCES

ACBF (2015)," *Capacity Imperatives for Domestic Resource Mobilisation in Africa*", African Capacity Building Foundation (ACBF), Africa Capacity Report 2015.

Bevans, D. L. and G. Palomba, G. (2000), "*Uganda: The Budget and Medium Term Budget Framework set in a wider Context",* World Bank, Washington D.C.

Calitz, E., Siebrits, K. and Stuart, I. (2016), "Enhancing the Accuracy of Fiscal Projections in South Africa", *South African Journal of Economic and Management Sciences*, 19(3):330-343.

Campos, J. E. and Pradhan, S. (1996), "*Budgetary institutions and public expenditure outcomes",* Working Paper no. 1646. Policy Research Department, World Bank.

Doshi, T.; Joutz, F., Lakuma, P., Lwanga, M.M., Manzano, B. (2015), "*The Challenges of Macroeconomic Management of Natural Resource Revenues in Developing Countries: The Case of Uganda"*, Economic Policy Research Centre, Research Series No. 124

Flynn, S. and Pessoa, M. (2014), "*Prevention and Management of Government Expenditure Arrear",* International Monetary Fund Technical Notes and Manuals

Gale, W.G. and Samwick, A. A. (2014), "Effects of Income Tax Changes on Economic Growth", Brookings Institution.

Ghura, D. (1998), *''Tax Revenue in Sub-Saharan Africa: Effects of Economic Policies and Corruption'',* IMF Working Paper, WP/98/135.

GoU (2015), *"The Second National Development Plan: 2015/16 – 2019/2020''*, Government of Uganda (GoU), the National Planning Authority, Kampala

______ (2010), *"The First National Development Plan: 2010/11 – 2014/15''*, Government of Uganda (GoU), the National Planning Authority, Kampala

IMF (2016), "The Fiscal Transparency Code", International Monetary Fund (IMF), Washington D.C.

IMF (2015), "Current Challenges in Revenue Mobilization: Improving Tax Compliance", International Monetary Fund (IMF), Washington D.C.

IMF (2005), "Dealing with the Revenue Consequences of Trade Reform", International Monetary Fund (IMF), Washington D.C.

Jelovac, I. and Vandeninden, F. (2008), "*How should Donors give Foreign Aid? Project Aid versus Budget support*", CREPP Working Papers 2008/04

Jenkins, G. P., Chun-Yan, K and Shukla, G. P. (2000), "Tax Analysis and Revenue Forecasting: Issues and Techniques ",Harvard Institute for International Development, Harvard University

Kuteesa, F., Magona, I., Wanyera, M. and Wokadala, J. (2006), "Uganda: A decade of budget reform and poverty reduction", *OECD Journal on Budgeting*, 6 (2): p1608-7143.

Kwagala-Igaga, D. (2016), "*Tax Reforms in Uganda: a case study of the reforms of direct taxation of business profits in the formal and informal sector*," Cambridge Scholar Publishing.

Lakuma, C.P., Marty, R and Kuteesa, A (2016), "*Survival Analysis of Regional Unemployment in Uganda: Evidence from the Uganda National Panel Survey (UNPS)''*, *African Development Review*, 28(1): 140–154.

Le Houerou, P and Taliercio, R. (2002), "Medium Term Expenditure Frameworks: From Concept to Practice: Preliminary Lessons from Africa'', World Bank, Washington D.C.

Mawejje, J. and Okumu, I.M. (2016), "Tax Evasion and the Business Environment in Uganda*", South Africa Journal of Economic*, DOI: 10.1111/saje.12132.

MoFPED (2016), *"The National Budget Framework Paper 2016/17'',* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

________(2015), *"The National Budget Framework Paper 2015/16 – 2020/21'',* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

________ (2015a),*''The Background to the Budget 2015/16 Fiscal Year'',* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

_________ (2014), *"The National Budget Framework*

Paper 2014/15", Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2013), *"The National Budget Framework Paper 2013/14",* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2012), *"The National Budget Framework Paper 2012/13",* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2012a), *"The Background to the Budget 2012/13 Fiscal Year",* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2011), *"The National Budget Framework Paper 2011/12",* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2011a), *"The Background to the Budget 2011/12 Fiscal Year",* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2010), *"The National Budget Framework Paper 2010/11 – 2014/15",* Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

__________ (2010a), *"The Background to the Budget 2010/11 Fiscal Year"*, Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.

OECD (2016), "*Revenue Statistics in Africa*", Organisation for Economic Co-operation and Development (OECD).

Reinikka, R. and Collier, P. (2001), "*Uganda's Recovery: The Role of Farms, Firms and Government*," The World Bank, Washington D.C.

RSA (2007), "*Employee Performance Management and Development System",* Republic of South Africa (RSA), Department of Public Service and Administration.

Robinson, M. and Last, D. (2009), "*A Basic Model of Performance-Based Budgeting*," International Monetary Fund Technical Notes and Manuals.

Ssewanyana, S. and Kasirye, I (2015), "*Progressivity or Regressivity in Uganda's Tax System: Implications for the fy2014/15 Tax Proposals*", EPRC Research Series No. 123.

Simson, R. and Welham, B. (2014), "*Incredible Budgets: Budget credibility in theory and practice*", ODI Working Paper No. 400.

Sy, A. (2015), *"2015: A Crucial Year for Financing Development in Africa*", Brookings institute, Africa Growth Initiative.

USAID (2004), "*Rate Setting for Local Taxes and Local Non-Tax Revenues: A Case of Rwandan Local Governments*", United States Agency of International Development (USAID), Rwanda Fiscal Decentralisation Project.

UNCTAD (2016), "*Debt Dynamics and Development Finance in Africa*", Economic Development in Africa Report 2016, United Nations Conference on Trade and Development UNCTAD).

World Bank (1998), "*Public Expenditure Management Handbook*", World Bank, Washington DC.

APPENDIX

Table A1: Budget performance: wage, non-wage recurrent and domestic development, 2010/11-2014/15 (billion UGX)

	FY 2010/11			FY 2011/12			FY 2012/13			FY 2013/14			FY 2014/15		
	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget
Security and Defence	536.6	2042.1	280.6	837.4	983.7	17.5	699.9	748.8	7.0	804.0	782.9	(2.6)	906.0	782.9	(13.6)
wage	267.1	289.0	8.2	289.3	312.7	8.1	353.7	353.6	(0.0)	367.9	285.0	(22.5)	423.0	285.0	(32.6)
Non-wage recur	243.4	333.8	37.2	241.8	369.0	52.7	241.8	290.9	20.3	331.7	416.8	25.6	378.6	416.8	10.1
develop	26.1	1419.3	5329.8	306.3	301.9	(1.4)	104.4	104.4	(0.1)	104.4	81.2	(22.2)	104.4	81.2	(22.2)
Roads and Works	705.2	664.7	(5.8)	826.4	809.1	(2.1)	1118.1	1189.1	6.4	1829.8	1728.8	(5.5)	1886.0	1728.8	(8.3)
wage	27.8	20.5	(26.2)	29.8	20.8	(30.2)	30.4	22.1	(27.4)	28.0	20.9	(25.4)	29.3	20.9	(28.7)
Non-wage recur	301.4	298.6	(0.9)	297.6	280.7	(5.7)	294.0	253.3	(13.8)	392.1	389.0	(0.8)	468.4	389.0	(17.0)
develop	376.1	345.7	(8.1)	499.0	507.7	1.7	793.7	913.7	15.1	1409.7	1318.9	(6.4)	1388.4	1318.9	(5.0)
Agriculture	289.3	281.4	(2.7)	294.7	268.6	(8.8)	305.0	271.6	(11.0)	348.1	332.3	(4.5)	344.6	332.3	(3.6)
wage	3.9	2.5	(36.2)	30.3	3.5	(88.5)	28.0	3.5	(87.5)	62.1	4.2	(93.3)	55.4	4.2	(92.5)
Non-wage recur	67.7	60.5	(10.7)	47.2	64.3	36.3	50.7	71.5	41.0	62.9	118.4	88.3	65.7	118.4	80.2
develop	217.8	218.5	0.3	217.1	200.8	(7.5)	226.3	196.6	(13.1)	223.2	209.7	(6.0)	223.4	209.7	(6.1)
Education	1103.7	1093.7	(0.9)	1246.0	1208.9	(3.0)	1382.8	1313.1	(5.0)	1474.4	1441.4	(2.2)	1794.8	1439.5	(19.8)
wage	690.1	722.5	4.7	761.0	755.0	(0.8)	856.2	843.6	(1.5)	962.6	942.4	(2.1)	1211.5	942.3	(22.2)
Non-wage recur	276.5	244.4	(11.6)	326.2	324.3	(0.6)	373.4	370.5	(0.8)	364.1	358.9	(1.4)	431.5	357.2	(17.2)
develop	137.1	126.7	(7.5)	158.8	129.6	(18.4)	153.2	99.0	(35.4)	147.7	140.1	(5.2)	151.8	140.1	(7.8.)
Health	570.0	564.1	(1.0)	598.6	578.9	(3.3)	632.5	618.8	(2.2)	712.5	671.9	(5.7)	750.0	672.0	(10.4)
wage	178.1	196.1	10.1	197.1	212.7	7.9	235.0	238.7	1.6	305.7	273.9	(10.4)	332.7	273.9	(17.7)
Non-wage recur	293.7	275.0	(6.4)	305.1	293.8	(3.7)	317.0	316.9	(0.0)	331.5	328.4	(0.9)	336.0	328.4	(2.2)
develop	98.2	89.5	(8.9)	96.4	72.4	24.9	80.6	63.2	(21.6)	75.4	69.6	(7.6)	81.3	69.7	(14.3)
Water and Environment	137.5	122.1	(11.2)	140.1	122.3	(12.7)	227.7	222.7	(2.2)	232.2	225.3	(3.0)	264.7	225.3	(14.9)
wage	5.6	5.4	(4.4)	5.6	5.5	(3.3)	9.8	7.4	(23.7)	12.4	6.8	(44.9)	14.5	6.8	(53.3)
Non-wage recur	9.3	7.0	(24.8)	12.4	7.0	(43.6)	11.9	17.0	43.1	16.5	25.0	51.4	15.6	25.0	60.5
develop	122.6	109.7	(10.5)	122.0	109.9	(9.9)	206.1	198.3	(3.8)	203.3	193.5	(4.8)	234.6	193.5	(17.5)
Justice, Law and Order	526.1	564.2	7.2	530.5	564.2	6.4	531.4	575.2	8.2	623.1	829.0	33.0	807.1	829.0	2.7
wage	178.1	175.0	(1.8)	179.4	175.0	(2.4)	222.4	213.6	(4.0)	272.0	240.1	(11.7)	290.1	240.1	(17.2)
Non-wage recur	172.3	290.4	68.6	173.9	290.4	67.0	194.8	256.9	31.9	212.3	306.9	44.6	288.3	306.9	6.5
develop	175.7	98.8	(43.8)	177.2	98.8	(44.2)	114.2	104.7	(8.3)	138.8	282.0	103.2	228.8	282.0	23.3
Accountability	406.8	331.3	(18.6)	665.4	331.3	(50.2)	507.2	486.9	(4.0)	656.4	632.0	(3.7)	1156.6	632.0	(45.4)
wage	25.2	22.4	(11.1)	98.6	22.4	(77.3)	153.1	138.1	(9.7)	155.9	143.3	(8.1)	160.7	143.3	(10.8)

	FY 2010/11			FY 2011/12			FY 2012/13			FY 2013/14			FY 2014/15		
	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget
Non-wage	228.7	223.2	(2.4)	393.3	223.2	(43.2)	194.3	216.3	11.3	233.4	248.5	6.5	688.1	248.5	63.9
Develop1	153.0	85.7	(44.0)	173.5	85.7	(50.6)	159.8	132.5	(17.1)	267.1	240.1	(10.1)	307.8	240.1	(22.0)
Energy & Minerals	142.3	216.6	52.2	1106.0	216.6	(80.4)	1253.5	116.7	90.7	1300.5	189.3	(85.4)	1316.4	189.3	(85.6)
wage	2.2	2.1	(6.5)	2.2	2.1	(6.5)	2.5	2.5	-	2.7	2.6	(4.5)	4.1	2.6	(36.6)
Non-wage	6.2	2.4	(60.4)	6.2	2.4	(60.4)	4.6	3.6	(22.5)	4.2	3.7	(11.8)	4.2	3.7	12.3
develop	134.0	212.2	58.4	1097.6	212.2	(80.7)	1246.3	110.6	(91.1)	1293.6	183.0	85.9	1308.1	183.0	(86.0)
Tourism, Trade & Industry	41.7	30.7	(26.4)	47.3	30.7	(35.1)	65.5	64.6	(1.4)	51.8	54.0	4.3	60.6	54.0	(11.0)
wage	1.8	1.0	(42.7)	12.0	1.0	(91.6)	12.8	1.8	(85.9)	12.9	2.0	(84.4)	14.8	2.0	(86.4)
Non-wage	22.1	19.0	(14.3)	12.8	19.0	48.3	16.0	30.5	91.2	17.6	30.1	71.7	24.3	30.1	23.8
develop	17.8	10.7	(39.7)	22.5	10.7	(52.4)	36.8	32.3	(12.3)	21.3	21.8	2.3	21.5	21.8	1.7
Lands, Housing & Urban Development	23.6	14.1	(40.4)	30.9	216.6	602.3	24.6	23.7	(3.6)	27.3	27.2	(0.4)	30.4	27.2	(10.6)
wage	2.7	1.9	(28.6)	2.7	2.1	(22.7)	2.8	2.2	(21.3)	4.0	2.9	(26.9)	4.0	2.9	(26.9)
Non-wage	9.1	5.2	(42.4)	8.8	2.4	(72.2)	6.5	5.3	(18.1)	7.3	7.0	(4.8)	7.7	7.0	(10.1)
develop	11.9	6.9	(41.4)	19.4	212.2	991.9	15.3	16.2	5.7	16.0	17.3	8.2	18.7	17.3	7.4
Social Development	29.5	24.0	(18.5)	53.7	24.0	(55.2)	28.1	25.8	(8.0)	45.8	43.0	(6.2)	73.0	43.0	(41.1)
wage	2.3	1.6	(30.3)	2.3	1.6	(28.6)	2.4	1.5	(37.5)	3.0	2.3	21.0	4.0	2.3	(41.1)
Non-wage	20.7	17.9	(13.4)	23.0	17.9	22.0	22.2	20.3	(8.7)	24.6	23.4	(4.9)	26.0	23.4	(10.2)
develop	6.5	4.5	(30.7)	28.5	4.5	84.2	3.4	4.0	16.9	18.3	17.3	(5.4)	43.0	17.3	(59.8)
ICT	12.2	13.4	10.0	12.1	13.4	10.3	15.5	7.4	(52.4)	15.4	13.0	(15.5)	17.0	13.0	(23.3)
wage	0.7	0.6	(4.6)	0.7	0.6	4.6	4.4	4.4	0.6	6.1	6.0	(1.7)	6.4	6.0	(6.8)
Non-wage	4.2	2.4	(42.6)	4.2	2.4	(42.3)	3.9	1.0	(73.8)	5.0	4.4	12.4	7.8	4.4	(43.4)
develop	7.3	10.3	41.8	7.2	10.3	42.1	7.2	2.0	(72.8)	4.3	2.7	(38.4)	2.8	2.7	(5.0)
Public Sector Management	661.2	698.7	5.7	701.9	698.7	(0.5)	805.6	722.5	(10.3)	819.3	818.7	(0.1)	934.6	818.7	(12.4)
Wage	14.2	11.8	(17.4)	150.1	11.8	(92.2)	172.9	16.4	(90.5)	183.1	15.7	(91.4)	242.8	15.7	(93.5)
Non-wage	507.5	562.1	10.8	429.4	562.1	30.9	498.3	594.0	19.2	477.4	653.3	36.8	520.0	653.3	25.6
develop	139.5	124.9	(10.5)	122.4	124.9	2.0	134.4	112.1	(16.6)	158.8	149.7	(5.7)	171.8	149.7	(12.8)
Public Administration	301.3	496.6	64.8	231.5	496.6	114.5	238.4	368.3	54.4	396.8	358.8	(9.6)	554.5	358.8	(35.3)
wage	31.3	31.7	1.4	32.8	31.7	(3.5)	35.8	37.6	4.9	42.4	34.1	(19.5)	48.4	34.1	(29.5)
Non-wage	242.8	427.0	75.9	171.2	427.0	149.4	189.6	310.0	63.5	332.8	301.0	(9.6)	469.0	301.0	(35.8)
develop	27.3	37.9	39.1	27.4	37.9	38.2	13.0	20.6	59.0	21.5	23.6	9.4	37.1	23.6	(36.5)
Parliament	162.8	158.2	(2.8)	162.7	158.2	(2.8)	235.4	231.7	(1.6)	237.6	236.4	(0.5)	554.5	236.4	(57.4)
wage	14.8	14.1	(4.4)	14.8	14.1	(4.4)	19.4	16.9	(13.1)	19.7	18.8	(4.6)	48.4	18.8	(61.3)
Non-wage	136.5	134.6	(1.4)	139.0	134.6	(3.2)	207.0	208.4	0.7	208.9	208.6	(0.2)	469.0	208.6	(55.5)
develop	11.5	9.5	(17.6)	9.0	9.5	5.5	9.0	6.5	27.9	9.0	9.0	-	37.1	9.0	(75.9)
Interest Payments Due	339.9	766.6	125.5	519.6	437.8	(15.7)	839.2	889.7	6.0	976.3	970.1	(0.6)	1082.9	1213.0	12.0

	FY 2010/11			FY 2011/12			FY 2012/13			FY 2013/14			FY 2014/15		
	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget	Budget	Outturn	Variation % of budget
Domestic Interest	262.4	671.6	155.9	402.0	357.0	(11.2)	712.8	788.5	10.6	837.6	853.4	1.9	996.5	1076.8	8.1
External Interest	77.4	95.0	22.7	117.6	80.8	31.3	126.4	101.2	(20.0)	137.8	116.8	(15.3)	86.4	136.1	57.5
Total wage bill	1445.8	1498.2	3.6	1808.7	1572.5	(13.1)	2141.4	1904.0	(11.1)	2440.2	2001.1	(18.0)	2890.1	2001.0	(30.8)
Total non-wage recurrent	2541.9	2903.5	14.2	2592.0	3020.6	16.5	2626.0	2966.4	13.0	3022.4	3423.4	13.3	4200.1	3421.7	(18.5)
Total Development	1662.2	2910.6	75.1	3084.4	2128.9	(31.0)	3303.9	2116.7	(35.9)	4112.4	2959.6	(28.0)	4360.6	2959.6	(32.1)
Total expenditures	5989.7	8082.5	34.9	8004.6	7159.7	(10.6)	8910.5	7876.9	(11.6)	10551.4	9354.2	(11.3)	12533.8	9595.2	(23.4)

Note: Data exclude external finance, external development expenditures, arrears and promissory notes.

Source: Data from the Ministry of Finance, Planning and Economic Development (MFPED), April 2016.

ENDNOTES

1 Discussed in detail in section 3.1.
2 UGX 130 billion per annum.
3 Aggregate Fiscal discipline; Allocation of resources in accordance with NDP's strategic priorities and; Efficient and Effective use of resources in the implementation of NDP's strategic priorities
4 External funding is treated more deeply in Section 8, as the focus here is on the domestic component of the budget.
5 See MoFPED (2014)
6 See MoFPED (2015).
7 Except from the GoU (2016)," *UNRA Probe Report*", Government of Uganda (GoU).
8 Except from the GoU (2016)," *UNRA Probe Report*", Government of Uganda (GoU).
9 Sector Monitoring and Quality Assurance; Health systems development; Clinical and public health and Pharmaceutical and other Supplies.
10 Where the central government bears most of the cost while the benefits are shared at all levels of governments.
11 See MoFPED (2015)
12 In 2001, Government approved the Fiscal Decentralisation Strategy (FDS) to enhance local governments' capacity in planning and resource allocation. The 10% flexibility principle was one of the key actions under the Strategy, intended to allow a local government to shift resources from one conditional grant to another in a bid to meet their local priorities. The flexibility is applied with a verification of value addition in service delivery under the benefiting sector without jeopardising the quality of the services provided. Whereas local governments embraced this principle, its implementation met constraints arising from the reluctance of some sector institutions to approve the recommended flexibility and the delay in confirming the final Indicative Planning Figures to local governments.
13 (MoFPED 2012)
14 It is increasingly difficult for the government to rehabilitate the milk collection infrastructure in East, North and Mid-west Uganda without funding.
15 Policy support is aid given upon the adoption or completion of specific policy reforms, such as financial sector reforms that included pension sector.
16 See MoFPED (2015)
17 It is important to note that when deficits are calculated, including grants and oil capital gains tax revenue, the deficit tends to narrow or converge with targets.
19 See MoFPED (2015)
20 Delta Partnership and Reev Consult (2013). Mid-Term Review of the National Development Plan: Results Framework Report.

EPRC RESEARCH SERIES

Listing of Research Series published since 2010 to date. Full text format of these and earlier papers can be downloaded from the EPRC website at www.eprc.or.ug

Series No.	Author(s)	Title	Date
130	Joseph Mawejje Ezra Munyambonera	Financing Infrastructure Development in Uganda	February 2017
129	Isaac M.B. Shinyekwa, Miriam Katunze	Assessment of the Effect of the EAC Common External Tariff Sensitive Products List on the Performance of Domestic Industries, Welfare, Trade and Revenue	September 2016
128	Isaac M.B. Shinyekwa Alex Thomas IJJO	Determinants of Domestic Food Price Differentials in Uganda: The Potential for and Constraints on Intra-County Trade	August 2016
127	Musa Mayanja Lwanga Annet Adong	A Pathway to Financial Inclusion: Mobile Money and Individual Savings in Uganda	March 2016
126	Gemma Ahaibwe Corti Paul Lakuma Miriam Katunze Joseph Mawejje	Socio Economic Effects of Gambling: Evidence from Kampala City, Uganda	January 2016
125	Joseph Mawejje Ezra Francis Munyambonera	Tax Revenue Effects of Sectoral Growth and Public Expenditure in Uganda	January 2016
124	Tilak Doshi Fred Joutz Paul Lakuma Musa Mayanja Lwanga Baltasar Manzano	The Challenges of Macroeconomic Management of Natural Resource Revenues in Developing Countries: The Case of Uganda	October 2015
123	Ssewanyana N. Sarah Ibrahim Kasirye	Progressivity or Regressivity in Uganda's Tax System: Implications for the FY2014/15 tax proposals	June 2015
122	Gemma Ahaibwe Ibrahim Kasirye	Creating Youth Employment through Entrepreneurship Financing: The Uganda Youth Venture Capital Fund	May 2015
121	Ezra Munyambonera Musa Mayanja Lwanga	A Review of Uganda's Public Finance Management Reforms (2012 to 2014): Are the Reforms Yielding the Expected Outcomes?	April 2015
120	Joseph Mawejje Musa Mayanja Lwanga	Inflation Dynamics and Agricultural Supply Shocks in Uganda	March 2015
119	Munyambonera F. Ezra, Corti Paul Lakuma, Madina Guloba	Uganda's Tea Sub-sector: A comparative Review of Trends, Challenges and Coordination Failures	September 2014
118	Sarah N. Ssewanyana and Ibrahim Kasirye	Uganda's progress towards poverty reduction during the last decade 2002/3-2012/13: Is the gap between leading and lagging areas widening or narrowing?	June 2014

Series No.	Author(s)	Title	Date
117	Mayanja Lwanga Musa and Mawejje Joseph	Macroeconomic Effects of Budget Deficits in Uganda: A VAR-VECM Approach	June 2014
116	Adong Annet, Muhumuza Tony and Mbowa Swaibu	Smallholder Food Crop Commercialization in Uganda: Panel Survey Evidence	June 2014
115	Barungi Mildred, Wokadala James and Kasirye Ibrahim	Implementing Universal Secondary Education Policy In Uganda: How Has The Public-Private Partnership Performed?	May 2014
114	Mwaura Francis, Okoboi Geofrey and Ahaibwe Gemma	Determinants of Household's Choice of Cooking Energy in Uganda	April 2014
113	Mawejje Joseph	Tax Evasion, Informality And The Business Environment In Uganda	December 2013
112	Shinyekwa Isaac & Othieno Lawrence	Trade Creation And Diversion Effects Of The East African Community Regional Trade Agreement: A Gravity Model Analysis.	December 2013
111	Mawejje Joseph & Bategeka Lawrence	Accelerating Growth And Maintaining Intergenerational Equity Using Oil Resources In Uganda.	December 2013
110	Bategeka Lawrence et ; UN Wider	Overcoming The Limits Of Institutional Reforms In Uganda	September 2013
109	Munyambonera Ezra Nampewo Dorothy , Adong Annet & Mayanja Lwanga Musa	Access And Use Of Credit In Uganda: Unlocking The Dilemma Of Financing Small Holder Farmers.	June 2013
108	Ahaibwe Gemma & Kasirye Ibrahim	HIV/AIDS Prevention Interventions In Uganda: A Policy Simulation.	June 2013
107	Barungi Mildred & Kasirye Ibrahim	Improving Girl's Access To Secondary Schooling A Policy Simulation For Uganda	June 2013
106	Ahaibwe Gemma, Mbowa Swaibu & Mayanja Lwanga Musa	Youth Engagement In Agriculture In Uganda: Challenges And Prospects.	June 2013
105	Shinyekwa Isaac & Mawejje Joseph	Macroeconomic And Sectoral Effects Of The EAC Regional Integration On Uganda: A Recursive Computable General Equilibrium Analysis.	May 2013
104	Shinyekwa Isaac	Economic And Social Upgrading In The Mobile Telecommunications Industry: The Case Of MTN.	May 2013
103	Mwaura Francis	Economic And Social Upgrading In Tourism Global Production Networks: Findings From Uganda.	May 2013
102	Kasirye Ibrahim	Constraints To Agricultural Technology Adoption In Uganda: Evidence From The 2005/06-2009/10 Uganda National Panel Survey.	May 2013
101	Bategeka Lawrence, Kiiza Julius & Kasirye Ibrahim	Institutional Constraints To Agriculture Development In Uganda.	May 2013
100	Shinyekwa Isaac & Othieno Lawrence	Comparing The Performance Of Uganda's Intra-East African Community Trade And Other Trading Blocs: A Gravity Model Analysis.	April 2013
99	Okoboi Geoffrey Kuteesa Annette &Barungi Mildred	The Impact Of The National Agricultural Advisory Services Program On Household Production And Welfare In Uganda.	March 2013

Series No.	Author(s)	Title	Date
98	Adong Annet, Mwaura Francis &Okoboi Geoffrey	What Factors Determine Membership To Farmer Groups In Uganda? Evidence From The Uganda Census Of Agriculture 2008/9.	January 2013
97	Tukahebwa B. Geoffrey	The Political Context Of Financing Infrastructure Development In Local Government: Lessons From Local Council Oversight Functions In Uganda.	December 2012
96	Ssewanyana Sarah & Kasirye Ibrahim	Causes Of Health Inequalities In Uganda: Evidence From The Demographic And Health Surveys.	October 2012
95	Kasirye Ibrahim	HIV/AIDS Sero-Prevalence And Socioeconomic Status: Evidence From Uganda.	October 2012
94	Ssewanyana Sarah and Kasirye Ibrahim	Poverty And Inequality Dynamics In Uganda: Insights From The Uganda National Panel Surveys 2005/6 And 2009/10.	September 2012
93	Othieno Lawrence & Dorothy Nampewo	Opportunities And Challenges In Uganda's Trade In Services.	July 2012
92	Kuteesa Annette	East African Regional Integration: Challenges In Meeting The Convergence Criteria For Monetary Union: A Survey.	June 2012
91	Mwaura Francis and Ssekitoleko Solomon	Reviewing Uganda's Tourism Sector For Economic And Social Upgrading.	June 2012
90	Shinyekwa Isaac	A Scoping Study Of The Mobile Telecommunications Industry In Uganda.	June 2012
89	Mawejje Joseph Munyambonera Ezra Bategeka Lawrence	Uganda's Electricity Sector Reforms And Institutional Restructuring.	June 2012
88	Okoboi Geoffrey and Barungi Mildred	Constraints To Fertiliser Use In Uganda: Insights From Uganda Census Of Agriculture 2008/09.	June 2012
87	Othieno Lawrence Shinyekwa Isaac	Prospects And Challenges In The Formation Of The COMESA-EAC And SADC Tripartite Free Trade Area.	November 2011
86	Ssewanyana Sarah, Okoboi Goeffrey & Kasirye Ibrahim	Cost Benefit Analysis Of The Uganda Post Primary Education And Training Expansion And Improvement (PPETEI) Project.	June 2011
85	Barungi Mildred & Kasirye Ibrahim	Cost-Effectiveness Of Water Interventions: The Case For Public Stand-Posts And Bore-Holes In Reducing Diarrhoea Among Urban Households In Uganda.	June 2011
84	Kasirye Ibrahim & Ahaibwe Gemma	Cost Effectiveness Of Malaria Control Programmes In Uganda: The Case Study Of Long Lasting Insecticide Treated Nets (LLINs) And Indoor Residual Spraying.	June 2011
83	Buyinza Faisal	Performance And Survival Of Ugandan Manufacturing Firms In The Context Of The East African Community.	September 2011
82	Wokadala James, Nyende Magidu, Guloba Madina & Barungi Mildred	Public Spending In The Water Sub-Sector In Uganda: Evidence From Program Budget Analysis.	November 2011
81	Bategeka Lawrence & Matovu John Mary	Oil Wealth And Potential Dutch Disease Effects In Uganda.	June 2011
80	Shinyekwa Isaac &Othieno Lawrence	Uganda's Revealed Comparative Advantage: The Evidence With The EAC And China.	September 2011

ECONOMIC POLICY RESEARCH CENTRE

51, Pool Road, Makerere University Campus,
P. O. Box 7841 Kampala, Uganda
Tel: +256414541023/4 Fax: +256414541022
Email: eprc@eprcug.org,

www.eprcug.org
TWITTER:@EPRC_official
www.facebook.com/EPRCUganda
eprcug.org/blog