

Country Case Study 8: Design and Implementation Features of MTEFs and their links to Poverty Reduction in Uganda

Andrew Bird

Mokoro Ltd.

Overseas Development Institute
London

May 2003

This study forms part of a multi-country study assessing the design and application of the medium-term expenditure framework (MTEF) as a tool for poverty reduction in selected African countries.

It was commissioned by the Africa Policy Department of the
Department for International Development (DFID) U.K. in collaboration with the European
Commission DG Dev



Centre for Aid & Public Expenditure

Contents

1. Background	4
1.1 When/why was the MTEF introduced?	4
2. The MTEF Process and Organisational Framework	6
2.1 The MTEF process and calendar	6
3. MTEF Structure and Coverage	8
3.1 Time-frame and out-year estimates	8
3.2 Comprehensiveness	9
4. Basis and Process of Setting Resource Projections	9
4.1 Forward projections and aggregate estimates	9
5. Basis and Process of Setting Aggregate Limits and Broad Allocations	11
5.1 MTEF allocations and expenditure limits	11
5.2 Other limits provided to line organisations	12
5.3 Revisions during the preparation process	12
5.4 The role of donors in determining allocations	13
5.5 Revisions to the Framework	14
5.6 Links to performance targets	14
6. Policy, Planning, the MTEF and Budgeting	15
6.1 Treatment of new policy proposals	15
6.2 Drivers of policy change	16
7. Basis and Process of Organisational Expenditure Planning	17
7.1 MTEF preparation	17
7.2 Organisational expenditure ceilings	17
7.3 Costing and priority sectors	18
8. The MTEF and the Budget Execution	18
8.1 Revisions during budget execution.	18
9. The MTEF and the Poverty Reduction Strategy	19
9.1 Integration of Poverty Reduction Strategy Processes and the MTEF/Budget.	19
10. The MTEF and Local Government	21
10.1 Local Government autonomy	21
10.2 Matching of authority and accountability	22
10.3 Local Government medium-term resource projections.	22
10.4 MTEF support for decentralisation	22
11. Quality of Information	23
12. Conclusions & Recommendations	23

Figures

Figure 1: Uganda MTEF and Budget Cycle	6
--	---

Tables

Table 1: Revenue and Budget Support Performance	10
Table 2: Comparison of MTEF Projections for Revenues and External Financing with Outturns	11
Table 3: Changes in the Expenditure Allocation between the BFP and the Budget	13
Table 4: 2002 BFP – Performance Targets for Agriculture, Health and Education	14

1. Background

1.1 When/why was the MTEF introduced?

An MTEF¹ exercise was initiated in Uganda in 1992 with the preparation of the Budget Framework Paper (BFP) prior to the finalisation of the annual budget. The BFP initiative was a response to two specific problems:

- The deterioration in macro-fiscal performance that had occurred in 1991/92 when inflation increased to 100%. In part this reflected a disjunction between the Ministry of Finance's (MoF's) management of the budget and the Ministry Economic Planning and Development's responsibilities for macroeconomic management. This led to merger of the two ministries in 1992 and the introduction of cash budget as a means of strengthening fiscal control.²
- The inability of the Government to meet its counterpart funding commitments on donor financed projects.

The MTEF was initiated directly by the Ministry of Finance Planning and Economic Development (MoFPED) independently of any donor-led operation. MoFPED has continued to exercise strong leadership over the process and its subsequent evolution. Nevertheless, from an early stage the MTEF was used as an umbrella into which other WB and donor supported PEM initiatives were incorporated. These included:

- Prioritisation of projects in the public investment programme with the adoption of core/non-core PIP. This was an attempt to address problem of funding of counterpart contributions on investment projects.
- The introduction of 'Priority Programme Areas' (PPAs) into the recurrent budget under which allocations for certain budget lines were 'protected' from cutbacks in funding releases resulting from the implementation of the cash budget system. The PPAs covered primary education, primary health care, water supply, rural roads and agricultural research/latterly extension.
- From 1994, the WB started to reorient its PER exercise towards supporting the MTEF with donor inputs into the PER increasingly being provided in the form of technical assistance support for the background MTEF analysis.
- After 1998, the PER exercise was to a large extent subordinated into the MTEF with MoFPED presenting the BFP at an annual PER meeting and the WB providing its own assessment of the MTEF proposals.

Over the years the scope of the MTEF has broadened considerably both in content and in stakeholder involvement. Thus

- The initial focus of the MTEF analysis was on the macro-fiscal framework and on allocations to the major budget lines (e.g. wagebill, O&M, subsidies, PPAs, PIP).
- Starting with the 1995 BFP, sector analysis was introduced. This initially covered education, health, agriculture, roads.
- After 1997 the MTEF analysis was extended to cover all sectors with the establishment of Sector Working Groups (SWGs) led by the line ministries.

¹ In Uganda the MTEF analysis is presented as the "Budget Framework Paper" (BFP). The term MTEF is used more narrowly to refer to a table setting out the proposed three-year resource allocations by sector and major programme. The term Medium-Term Budget Framework (MTBF) refers to the aggregate fiscal table showing total revenues, expenditures, deficit and financing. Both the MTBF and MTEF tables are included in the annual budget estimates. In this case study the term MTEF has been used more broadly to refer to the process of developing the BFP involving the development of the medium-macro-fiscal framework, the analysis of strategic public expenditure choices, and the development of public expenditure plans. References to the BFP refer to the BFP document. In Uganda, the PRSP is referred to as the Poverty Eradication Action Plan (PEAP). Funding for implementation of poverty-reduction related expenditures is grouped within the Poverty Action Fund (PAF) which exists as a "virtual fund" within the Budget.

² The two ministries were briefly demerged again during 1996-97.

- The MTEF exercise was extended to local governments (LGs) in 2000 with the introduction of Local Government Budget Framework Papers (LGBFPs).
- A requirement for submission of the MTEF to Parliament was introduced under the 2001 Budget Act.

1.2 Key features of the approach to implementing the MTEF

Initially the MTEF exercise was undertaken within MoFPED. Line ministries started to be involved from 1994 with introduction of sector analysis. Since, the process has been expanded and representatives of civil society now attend the main BFP workshops.

A more participatory approach was adopted with 1998 BFP with consultation workshops at beginning and end of MTEF preparation and with the setting up Sector Working Groups (SWGs) to prepare sector BFPs (SBFPs). SWGs now cover: (i) education; (ii) health, (iii) roads, works, communication and housing; (iv) water; (v) agriculture; (vi) natural resources; (vii) justice, law and order; (viii) public administration; (ix) accountability; (x) local government; (xi) enabling framework- private sector; (xii) security; (xiii) public service, pay and pensions reform; (xiv) social development.

Until 2002, the BFP had the status of a Cabinet Memorandum and was therefore not ‘a public document’. With the presentation of the MTEF to Parliament, it is now in the public domain. However, a public/popular’ version of the BFP has not yet been produced, nor has the BFP been placed on the MoFPED website.

MoFPED has been leading advocate of MTEF process. Because MoFPED has responsibility for both finance and planning, the potential turf issues that arise where these functions are separated have been avoided. The MTEF exercise has also enjoyed strong political support from the President (although State House has been one of the worst transgressors in keeping its Budget within the MTEF ceiling). Line ministries and ministers have become increasingly engaged in MTEF process. There is a view that it has provided greater certainty to the budget process and as having simplified budget preparation and negotiation. However, there are doubts about the transparency of decisions on sector resource ceilings. These are seen as being decided by MoFPED with little scope for discussion and argument.³

Donors have played a supporting role with the provision of technical assistance (e.g. to support SWGs, plus specific thematic studies), but there has been no dedicated project assistance to support the MTEF. Technical assistance (TA) inputs have been effectively managed by the MoFPED. This has resulted in a high degree of institutionalisation of the MTEF exercise.

As noted above, there has been a close relationship between MTEF and the WB’s Public Expenditure Review (PER) exercise. The 1993 PER introduced a more participatory approach to PER involving collaborative working with MoFPED. However, to a large extent the PER remained a parallel exercise providing analysis that was often not well-timed to feed into MTEF process. After 1997, the PER process was subsumed within the MTEF involving (i) donor participation in SWGs; and (ii) an annual PER meeting held in May at which MoFPED presented the MTEF plus supporting issues related papers to the donor community.

³ Moon, Allister (2002) Public Expenditure Reviews (PERs) and Budget Process in Uganda and Tanzania (mimeo).

2. The MTEF Process and Organisational Framework

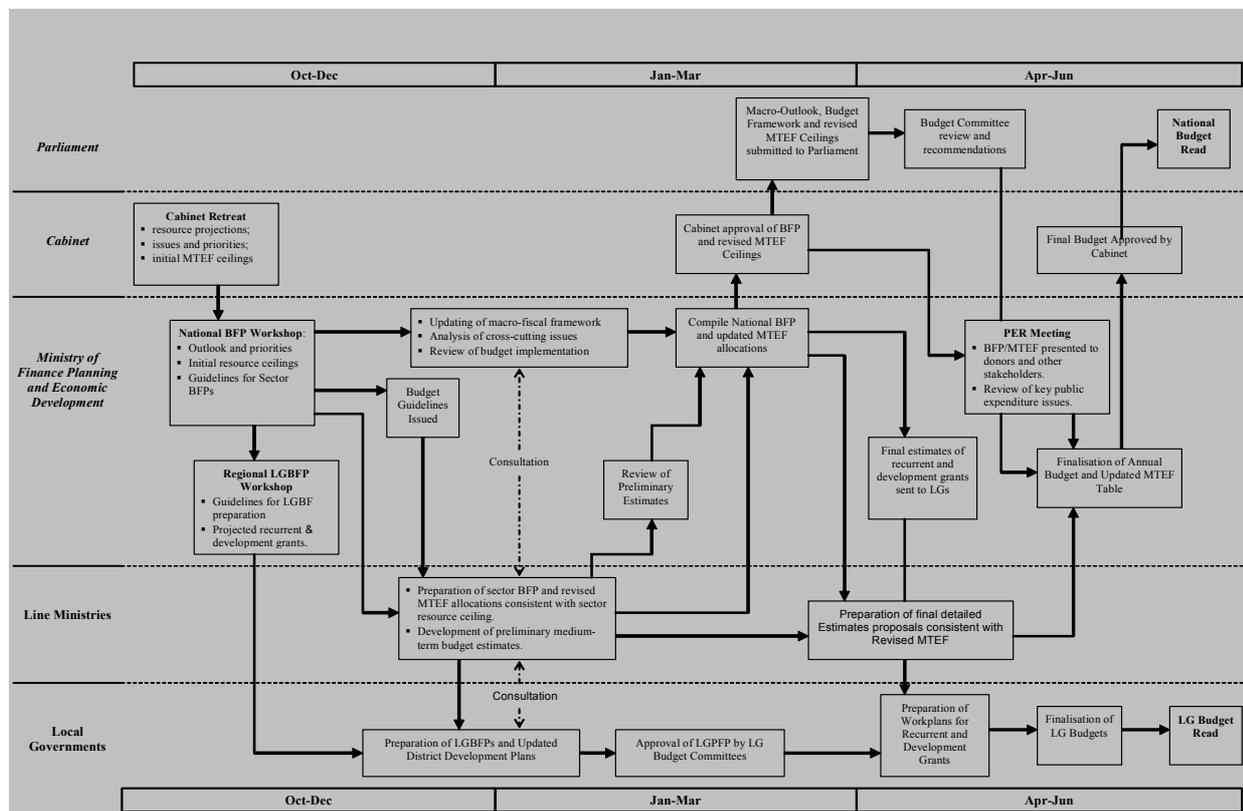
2.1 The MTEF process and calendar

Preparation of the MTEF starts in September/October with a Cabinet retreat. The policy and analytical stage of the MTEF exercise is completed with the draft BFP being presented to Cabinet in March prior to its submission to Parliament. The final MTEF figures are included in the final Budget proposals that are approved by Cabinet in late May/early June and then submitted to Parliament.

Preparation of the MTEF has been integrated with the Budget preparation process. Thus:

- the budget guidelines issued in November cover both the preparation of the SBFPs and of the preliminary budget estimates for recurrent and development expenditure;
- the guidelines issued in May for finalisation of the Budget Estimates incorporate revised sector and ministry resource ceilings following Cabinet approval of the BFP.

Figure 1: Uganda MTEF and Budget Cycle



In MoFPED:

- Budget Policy and Evaluation Department co-ordinates MTEF preparation.
- Macroeconomic Department – prepares the macro-fiscal framework and sets the resource envelope.
- Tax Policy Department – provides inputs on revenue policy and administration.
- Public Administration Department and Infrastructure and Social Services Department – prepares sector inputs to main BFP and liaises with SWGs and line ministries.

In line ministries:

- Planning Departments provide the secretariats to SWGs that prepare the SBFPs.
- SWGs involve department heads in line ministry, MoFPED, donor representatives, civil society groups.

The MTEF is closely integrated with the PRS process. MoFPED is responsible for preparing both the PRS and MTEF. The focus within the Budget Department of MoFPED has moved from traditional line item incremental budgeting towards a more policy-led budget process with an increasing focus on outputs and outcomes. The policy and planning departments are responsible for the PRS process in line ministries.

2.2 Political engagement

The MTEF process starts with a Cabinet retreat prior to the National BFP Workshop in October (however this retreat was not held in 2001). The BFP proposals and preliminary budget estimates are then presented to Cabinet by the beginning of March. Under the new 2001 Budget Act, the President is required to submit to Parliament a ‘three years macro-economic plan and programmes for the economic and social development’ by 1st April. Following review by the Budget Committee recommendations are then made to the President to be taken into account in the finalisation of the Annual Budget.

In 2002, the submission to Parliament (‘Macroeconomic Framework and Indicative Budget Framework’) was presented in somewhat different form to the BFP, but in future years MoFPED intends to integrate these two documents.

Prior to 1998, the MTEF was prepared largely as an internal exercise by MoFPED involving only limited consultation with line ministries and other stakeholders. Although work with line ministries in analysing expenditure priorities in selected sectors had been initiated in 1993/94, this was perceived as being largely led by MoFPED. In 1998 a more participatory approach was adopted and formally became part of the MTEF exercise. The key elements of this new approach were:

- A Cabinet retreat held in September/October to discuss the initial resource framework and identify the key budget issues and priorities for the coming MTEF.
- Holding a consultative workshop at the beginning of MTEF preparation (the National BFP Workshop) and prior to finalisation of the annual budget (the Public Expenditure Review Workshop). These are attended by representatives of government ministries, the Parliamentary Budget Committee, LGs, donor agencies and civil society groups.
- The establishment of SWGs responsible for preparing the SBFPs and prioritising expenditure plans within the indicative MTEF resource ceilings. SWGs membership comprises ‘representatives of all stakeholders including civil society, donors, NGOs and the Government’.⁴ SWGs meet twice monthly throughout the year.
- Since 2000, extending the MTEF process to LGs with the preparation of LGBFPs. In October, MoFPED organises a series of regional workshops to initiate LGBFP preparation and to communicate planned levels of grant transfers for the next three years.

These consultative processes have assumed an influential role in the planning of the budget. The sector proposals in the BFP are based on the SBFPs. The LGBFPs do not directly feed into the preparation of the BFP, but are intended primarily as a tool for strategic budget planning by LGs.

⁴ MoFPED (2001) Terms of Reference and Guidelines for Preparation and Presentation of Sector Budget Framework Papers, Fiscal Years 2002/03-2004/05 (page 1).

Both line ministries and LGs see the BFP process as being central to their own planning and budgeting process.

2.3 The role of parliament

Under the 2001 Budget Act, MTEF is presented to Parliament by April 1st. Comments of the Parliamentary Budget Committee provided by 15h May for consideration in finalisation of the Budget. Annual Budget which is presented to Parliament by 15th June includes an updated MTEF table.

In past Parliament has played primarily an ‘observer’ role (member of the Budget Committee attended workshops etc. but BFP was not reviewed by the Committee). The 2001 Budget Act, which was introduced as a private member’s bill, reflects the concern of Parliament to become more effectively engaged on issues of medium-term budget policy and strategy. According to the Chairperson of the Committee an expected consequence of these new arrangements will be to facilitate subsequent approval of the annual budget by focusing its review the budget proposals on their consistency with the BFP.

3. MTEF Structure and Coverage

3.1 Time-frame and out-year estimates

The MTEF in Uganda covers a three-year time horizon. The out-year estimates in the MTEF represent indicative allocations broken down by sector and institution and in the case of LG conditional grants by programme. Allocations are further divided between wagebill, non-wage recurrent, domestic development and donor development expenditures.

Initial ceilings for sector allocations are set by MoFPED at the commencement of the MTEF exercise in October. SWGs then propose changes within the overall sector resource ceiling that are consistent with policy priorities and strategies. Resources can be switched between domestic development and non-wage recurrent categories. Wagebill allocations are determined by the Ministry of Public Service. One consequence of this separation is that at sector level, the MTEF fails to address adequately the potential trade-offs between expenditure on the wagebill and other categories.

Externally financed public investment poses particular problems because of: (i) the typically longer timescale over which projects are planned and implemented (e.g. 1-2 year preparation and 3-4 year implementation); and (ii) greater difficulties in accurately estimating expenditures.

MoFPED undertakes a separate PIP exercise and approval procedure for investment projects (the PIP document is also referred to as Volume 2 of the Poverty Eradication Action Plan). One consequence is that donor financed investment allocations have been determined exogenously separate from the MTEF process and therefore represent a potentially softer budget constraint for line ministries (if they can access additional donor financing they can increase funding for their sector). To address this problem MoFPED intends to bring the PIP within the overall budget constraint for the sector. However, it is acknowledged that this will take some time as there are considerable practical hurdles to be overcome.

3.2 Comprehensiveness

The MTEF does not include local government revenues and the expenditures financed from these revenues. Local Government expenditures are reflected in the MTEF as unconditional and conditional grants subdivided between wage, non-wage recurrent, domestic development and donor project allocations.

The MTEF does not include provision for arrears (Ush 37 billion in 2002/03) and 'local other' (expenditures against revenues) (Ush 12 billion) which are included in the Budget (total Ush 1,838 billion).

The MTEF structure is consistent with the categorisation used in the Budget. The main difference is that the MTEF presents expenditures sectorally but with allocations by vote identified under each sector. The MTEF does not identify allocations by programme except in the case of local government conditional grants.

4. Basis and Process of Setting Resource Projections

4.1 Forward projections and aggregate estimates

Forward projections are based on a financial programming model. The model provides a coherent framework that links relevant variables (e.g. import revenues linked to level of imports). Within the model economic growth is treated as an exogenous variable.

MoFPED and BoU collaborate in running the model with the framework being constantly being updated. Until recently, revenues plus concessionary financing provided the aggregate fiscal constraint within which the MTEF was prepared. However, since 1997/78 the resource envelope has grown rapidly due to substantially increased donor budget support, which rose from 2.6% of GDP in 1996/97 to 7.2% in 2001/02. This has led to following concerns:

- the potential impact on the exchange rate and inflation of a high level external resource flows and rapidly increasing public expenditure;
- the risk of volatility of exchange and interest rates in response to fluctuations in aid flows; and
- the increased dependency of Budget on external assistance.

One consequence of the increase in donor financing was that the overall deficit, excluding grants, increased from 6.25% of GDP in 1996/97 to 11.4% of GDP in 2001/02. This has led MoFPED to changing the basis of the aggregate resource constraint so that in future it will increasingly reflect the Government's long-term objectives of fiscal sustainability and a reduced budget deficit. The failure to increase domestic revenues remains a major concern to MoFPED. The tax base is very limited and tax administration is weak. There is an enduring culture of non-compliance among taxpayers. As a result MoFPED has adopted more modest targets for revenue growth in recent MTEFs (0.2% per year in 2002/03-2004/05 MTEF).

The resource framework for the PRSP is fully integrated within the MTEF.

The macroeconomic and fiscal forecasts and projections are co-ordinated with the IMF but with MoFPED and BoU having taken the lead during the last 2-3 years. Effectively the Government runs a 'shadow programme' to that of the IMF. The MTEF adopts more conservative forecasts than the IMF which has tended to overestimate revenues and budgetary support.

The basis of the MTEF forecasts are as follows:

- GDP is estimated exogenously for each sector – in recent years GDP growth has fluctuated between 5% and 7%.
- Revenues are projected for each tax head – generally these assume modest improvements in revenue administration.
- External financing is based on contractual agreements and relatively firm commitments. Estimates of budget support financing have proved optimistic with donors overestimating the level of disbursements. Consequently, for the 2002/03 budget, forecasts were adjusted down by 10% from the figures derived from the donors. Estimates of project financing in the Development Budget have also proved optimistic hence the figures in the fiscal table is lower than that the total of the sector allocations in the MTEF table, reflecting outturn experience from previous years. This difference is 10% in 2002/03 Budget.⁵
- Debt payments generated from the debt database maintained by MoFPED and BoU.

In recent years outturn figures have fallen significantly below the resource projections contained in the annual Budget. In the case of revenue shortfalls, there have been matching reductions in budget releases and expenditures. Shortfalls in budget support have been covered by adjustments in the Governments savings and borrowings with the BoU (since it is assumed that the receipt of these resources has been delayed).

MoFPED introduced an Annual Budget Performance Report in 1999/2000 and a Semi-Annual Budget Performance Report from 2001/02 which has provided an analysis of deviations. The main causes identified have been:

- Overoptimistic projections of tax revenue performance. With the 2000/01 Budget MoFPED introduced more modest assumptions of revenue growth.
- Overoptimistic estimation of budget support. From the 2000/01 Budget MoFPED has made downward adjustments to the estimates provided by donors (especially the EC and WB)
- Overestimation of the GDP deflator which has contributed to overoptimistic estimates of tax revenues.
- Overestimation of changes in the exchange rate.

Table 1: Revenue and Budget Support Performance

Source	1999/2000		2000/01	
	Budget (Ush bn)	% Outturn	Budget (Ush bn)	% Outturn
Uganda Revenue Authority (URA)	1,100.0	88.9%	1,111.4	96.7%
Non-URA (mostly Non-Tax Revenues)	22.8	122.0%	29.5	28.2%
Budget Support (Grants and Loans)	512.0	60.3%	685.4	80.2%
Total	1,634.8	80.5%	1,826.3	89.4%

Source: MoFPED Budget Performance Reports 1999/2000 and 2000/01

The table below compares MTEF projections for revenues and external financing with subsequent outturns. It indicates that:

- Since 2000, there has been a considerable improvement in the realism of revenue estimates, particularly for the two outer years, where the estimates have been subject to small changes in subsequent years.
- Projections of external financing continue to be subject to significant variation both between MTEFs and in comparison with outturn figures. For example, the MTEF table in the 2001/02

⁵ There is a question of the extent to which this shortfall reflects implementation capacity constraints or the need to incorporate some “over-budgeting” on capital investment projects, where implementation can be affected by a range of “delay” factors. The relatively small adjustment of 10% suggests that the latter set of factors is probably more important in the case of Uganda.

Budget overestimated external financing by 27.5%, while the out-year estimate for 2002/03 was reduced by 8% when the MTEF was updated for the 2002/03 Budget.

Table 2: Comparison of MTEF Projections for Revenues and External Financing with with Outturns

Revenues							
USh billion							
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
MTEF 1997							
MTEF 1998		939.6	1,099.6	1,284.4			
MTEF 1999			1,132.1	1,332.7	1,547.4		
MTEF 2000				1,140.9	1,291.1	1,460.4	
MTEF 2001					1,299.7	1,485.1	1,696.6
MTEF 2002						1,432.6	1,622.8
Outurn	799.5	950.2	1,010.3	1,083.5	1,246.8		

External Financing (Grants + Loans - Repayments)							
USh billion							
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
MTEF 1997							
MTEF 1998		657.2	591.0	611.6			
MTEF 1999			940.2	910.6	1,040.0		
MTEF 2000				1,164.1	1,181.2	1,217.6	
MTEF 2001					1,675.9	1,434.7	1,471.7
MTEF 2002						1,322.9	1,282.8
Outurn	591.5	702.9	755.1	1,126.2	1,313.9		

Note: Outturn figures for 2001/02 are revised estimates included in 2002/03 Budget

5. Basis and Process of Setting Aggregate Limits and Broad Allocations

5.1 MTEF allocations and expenditure limits

Expenditure limits for the budget year are determined from the MTEF (the MTBF/fiscal table). Prior to the October BFP Workshop, the MTEF ceilings for the out-years are updated and extended forward by one year. The revised framework is included as an annex to the BFP guidelines. The aggregate expenditure limit is broken down between wage-bill, non-wage recurrent, domestic development and donor development categories. However, ministries may switch resources between domestic development and non-wage recurrent expenditure. In effect therefore there are separate limits for the expenditures financed from the domestic budget (including budget support) and externally financed projects.

The aggregate limit is the same as the updated MTEF projections. The MTEF projections are updated three times during the year: (i) in October prior to the preparation of the BFP; (ii) in March when the BFP is finalised; and (iii) in June when the Budget is finalised. Cabinet is engaged in setting aggregate ceilings and broad allocations through the Cabinet Retreat held prior to the October BFP Workshop, and subsequently when it considers and approves the BFP in March.

There is a separate PIP. In the context of the MTEF, the PIP is used for generating the estimates of externally financed public investment for the MTEF (since these will largely reflect existing project commitments or 'pipeline' financing). Information on donor project commitments and planned disbursements is held on a database maintained by the Aid Data Unit in the Aid Liaison Unit.

Updating of the PIP takes place after the MTEF is completed and so is not directly linked to the MTEF process (e.g. PIP 2002/03-2004-05 is due to be prepared in August 2003). Consequently, while the first year of the PIP will be the same as the Budget and MTEF, the out-years can be significantly different. For the 2002 MTEF, the absence of an updated PIP led to MoFPED projecting sectoral allocations for externally financed projects pro-rata based on the distribution of allocations in the 2002/03 Budget. Thus, the role of the MTEF in determining resource allocations does not currently extend to externally financed projects. It also indicates the need for reform of the PIP exercise to bring it more effectively within the framework of the MTEF.⁶

5.2 Other limits provided to line organisations

Resource limits are further broken down between by institution (ministry) and by major economic category, and in the case of LG conditional grants by sub-functional programme.

Sector Working Groups are free to propose reallocations between institutions and the major economic categories of spending so long as this is consistent with policies such as those regarding the decentralisation of government functions, and targets under the Poverty Eradication Action Plan (PEAP).⁷

The absence of a common sub-functional (programme) classification to the Budget represents a significant constraint to the BFP analysis and to linking resource allocations to policy priorities.

5.3 Revisions during the preparation process

Further adjustments are made to allocations during preparation of the final budget. These derive from: (i) recommendations of Cabinet and Parliament on the BFP proposals; (ii) further updating of the macro-fiscal framework; (iii) final decisions on wage and payroll adjustments taken by the Ministry of Public Service; and (iv) evaluation of spending agency budget proposals.

For the 2002/03 Budget, total expenditure allocations increased by 4.3% compared with the BFP proposals with the increase in domestic funding being largely allocated to increased wage-bill spending. Allocations for donor financed development expenditures were increased by 9.3% reflecting an updated assessment of expected disbursements on aid projects.

An analysis of variance in allocations across the 10 MTEF sectors showed:

- Considerable consistency between the BFP and Budget estimates for non-wage recurrent and domestic development expenditures with an average variation of 4.3% in 2002/03 and 2.9% in each of the two outlying years. Since it is only in these two categories of expenditure that the MTEF analysis is being used to influence expenditure allocations, it suggests that the MTEF ceilings process is influential.⁸
- A surprisingly high level of variance in wagebill allocations between the BFP and Budget, averaging 14.4%. The reasons for this deviation are not clear, and at first sight it appears somewhat surprising since the deviation at sector level is much greater than for the total wagebill expenditures.

⁶ From an institutional perspective Uganda has, since 1995, made significant progress towards integration of the planning and budgeting of recurrent and development expenditures. Responsibility for the PIP, BFP and Annual Budget has been brought within a single department in MoFPED. Under the Integrated Financial Management System being introduced from July 2003 the development and recurrent budgets are due to be fully integrated within a common budget classification.

⁷ The term used for the PRSP in Uganda.

⁸ As noted earlier, wagebill allocations are to a large extent determined exogenously by the Ministry of Public Service, while expenditures on externally financed projects are largely derived from existing commitments of project financing.

- A similarly very high level of variation in donor financed development expenditures averaging 24.6% indicating the very weak basis for the original estimates. This is further reflected in the practice of projecting sector allocations for the two outer years pro-rata with the projected overall change in donor financed expenditures.

Table 3: Changes in the Expenditure Allocation between the BFP and the Budget

Change in Total Allocation			
	Budget	Proj.	Proj.
	2002/03	2003/04	2004/05
Total Expenditure	4.3%	3.2%	3.1%
Wagebill	5.3%	2.8%	2.2%
Non-Wage + Dom. Dev.	1.2%	0.0%	-0.1%
Donor Financed Dev.	9.3%	9.9%	10.5%
Average Variance In Sector Allocations			
	Budget	Proj.	Proj.
	2002/03	2003/04	2004/05
Total Expenditure	8.3%	6.9%	6.4%
Wagebill	14.4%	10.7%	7.4%
Non-Wage + Dom. Dev.	4.7%	2.9%	2.8%
Donor Financed Dev.	24.6%	24.6%	24.6%

In theory organisational resource allocations are determined within sector resource ceilings by the SWGs. In practice both sector resource ceilings and allocations within in them are guided by a number of policy priorities. These include:

- Education – policy commitment that 30% of ministerial and LG recurrent spending should be allocated to education. Spending requirements in education are also driven by UPE targets.
- Poverty Action Fund (PAF) – policy commitment that poverty related spending should increase as a share of total budgetary expenditure.
- Defence – spending is capped at 2% of GDP.
- Statutory Bodies – their budgets are set directly by Parliament although the Government also makes recommendations through the MTEF process.

5.4 The role of donors in determining allocations

Despite donor resources financing slightly over half of all public expenditure, MoFPED takes a strong lead in determining resource allocations with donor conditionalities being seen as reinforcing rather than leading expenditure policies. Examples of donor influence include:

- The spending target for education as share of total recurrent expenditure.
- Capping of defence spending as an IMF conditionality.
- Earmarking of budget support spending – with some donors seeking additionality and direct accountability for their resources. In the 2002 PER meeting MoFPED made a strong policy statement discouraging this practice.

Donor influence over the Development Budget tends to be considerably more insidious with allocations reflecting past independently taken financing decisions rather being made within the framework of the MTEF.

5.5 Revisions to the framework

The BFP does not explicitly explain changes made in sector and institutional allocations from the previous MTEF. However, in rolling forward the allocations for the next three years it includes an analysis of:

- Release performance against budget allocations for the previous two FYs and the first half of the current FY (since Uganda operates a cash budget – this provides a summary of in-year changes in allocations). It seeks to explain the underlying reasons for significant differences (e.g. overexpenditure of MTEF public administration allocation due to accelerated releases to State House and the Electoral Commission).
- Changes in the overall expenditure ceiling and their impact on the expenditure programme as a whole (e.g. the 2002 BFP adopted a more modest increase in expenditures for 2003/04 due to fiscal sustainability concerns and the decision to reduce the fiscal deficit from 12.3% of GDP in 2001/02 to 11.5% in 2002/03).
- The implications of the revised ceiling for allocations to individual sectors, focusing particularly on the coming budget year and taking into account the Government's stated expenditure priorities (the 2002 BFP takes particular attention to allocations to PAF activities).

5.6 Links to performance targets

The BFP does not specifically link allocations to performance targets (as ministry expenditures are not disaggregated by programme, this would probably only be feasible in relation to the programme-related grants to LGs). Part of the problem is that only in a small number of programmes has there been a move towards output-based budgeting. For example, in education considered one of the more advanced sectors output-related unit costs and performance indicators have so far only been developed for primary education – work on developing unit costs and indicators for secondary and tertiary education is to begin in 2002/03.

However, in the discussion of the sector programmes in the BFP general sector performance indicators and targets are included where these are available. In the 2002 BFP these were stated as follows for agriculture, health and education:

Both the PEAP and MTEF use the same performance indicators and targets where these are available. However, this is an area in which there is considerable weakness (only in education, health and water have targets really been linked to resource allocation). The issue is closely linked to the development of SWAPs which have so far been completed for health and education and are currently being developed for water and the other social sectors. There is a 10 year development plan for roads which provides a similar framework. The Plan for the Modernisation of Agriculture, which in future should provide the policy basis for public resource allocations in agriculture, has yet to be costed.

Public consultation in target setting is closely linked to the development of sector plans and the PEAP in which civil society representatives are involved. For PEAP, there is also a parallel process headed by civil society organisations that feeds into the finalisation of the PEAP.

Table 4: 2002 BFP – Performance Targets for Agriculture, Health and Education

2002 BFP - Performance Targets for Agriculture, Health and Education							
Agriculture							
No performance targets stated.							
Health							
Programme	Indicator	Expected Outcome	1999/2000	Performan-	Performance Forecast		
			Baseline Value	ce to Date 2001/02	2002/03	2003/04	2004/05
Health Service Delivery	OPD Utilisation	Increased access of population to health services	0.40	0.43	0.45	0.47	0.50
Immunisation	DPT 3 coverage	Reduction in morbidity and mortality due to immunisable diseases	41.4%	46.0%	50.0%	54.0%	60.0%
HIV/Aids Control	HIV prevalence rate from ANC surveillance data	Reduction in HIV/Aids transmission	6.9%	6.1%	5.8%	5.4%	5.0%
Reproductive Health	Institutional deliveries as % of total expected births	Reduction in maternal and infant morbidity and mortality	38.0%	38.0%			70.0%
Human Resource Development	% of approved posts filled by trained health workers	Improve quality of health services delivery	33.0%	40.0%	43.0%	46.0%	50.0%
Education							
Indicator	2000/01		2001/02	2002/03			
	Target	Actual	Target	Target			
Primary Education							
Enrollments	5,917,216	5,917,216	6,097,000	6,218,940			
No of teachers on payroll	101,000	103,404	117,000	125,000			
Pupil/Teacher Ratio	63:1	57:1	54:1	50:1			
Pupil/Classroom Ratio	121:1	98:1	92:1	89:1			
Pupil Book Ratio	6:1	6.7:1	New syllabus introduced	3:1			
Secondary Education							
No indicators							
Tertiary Education							
No indicators							
Source: MoFPED: Macroeconomic Plan and Indicative Budget Framework 2002/03-2004/05							

6. Policy, Planning, the MTEF and Budgeting

6.1 Treatment of new policy proposals

The PEAP is at the centre of the policy development process ‘the PEAP has guided the formulation of government policy since its inception in 1997...Under this plan, Uganda is being transformed into a modern economy in which people in all sectors can participate in economic growth’.⁹

⁹ MoFPED (2000) Uganda’s Poverty Eradication Action Plan – Summary and Main Objectives” (March)

Institutionally this process is facilitated by a combined planning and finance ministry in which responsibility for PEAP is located within the Planning and Economic Development Department. Thus the PRS has been integrated within the planning process that existed previously and can be considered as having brought a stronger policy focus to this process.

Within Government participation in the PEAP process involves line ministries and other stakeholders at the sector level through the Sector Working Groups (in effect the same SWGs are responsible for PEAP and the MTEF). The parallel process headed by civil society organisations ensures a strong and direct public input into PEAP (this may be contrasted to the involvement of NGOs in the SWGs where the emphasis is on consultation within a government-led exercise).¹⁰

The sector policy review and development process is primarily the responsibility of line ministries, although as noted above may be 'prompted' through the PEAP and/or the MTEF/Budget process. Line ministries are responsible for submitting new policies for approval by Cabinet. However, MoFPED is always consulted in policy development process and line ministries are well aware of the importance of developing proposals consistent with the MTEF and budget envelope. In effect the sector planning process increasingly recognises a hard budget constraint.

The PEAP and planning process are closely integrated and provide the overall framework within which policies are developed. Detailed policies at the sector level are developed separately within this framework. For example, the education SWAP will feed into the updating of the PEAP which itself will be followed by further updating of the education SWAP.

The MTEF and Budget process is not itself regarded as a policy setting exercise, but provides medium-term macro-fiscal framework and resource constraints for PEAP. Resource allocations under MTEF/Budget strongly influenced PEAP. PAF allocations account for around 50% of the budget. The policy-making and MTEF/Budget processes are thus directly linked, ensuring that policies are developed within a realistic fiscal constraint.

6.2 Drivers of policy change

MoFPED plays a lead role in driving the process of policy change. While the PEAP provides the framework for policy synthesis, new policy proposals typically originate:

- From the Presidency or Cabinet – examples being Universal Primary Education, the Plan for the Modernisation of Agriculture, and Support for Private Sector Development. Ministries then develop the detail of these policies, which may take considerable time.
- Through a process of review of sector policies and programmes. Some sectors (e.g. education and health) have well established review processes in which the line ministry plays an initiating role. In other sectors MoFPED may initiate a policy review agenda from the MTEF/budget process.

The PEAP has enhanced this process by introducing a more comprehensive and wide-ranging policy review. The review process for updating the PEAP is due to begin in August 2002 and last for almost one year.

Donors are closely involved through their participation in the SWGs and the annual PER meeting. While donors have influence as stakeholders, the process is owned and led by Government. At the sector level, both the SWAP and MTEF processes are overseen by the SWG with line ministry

¹⁰ During PEAP preparation the public consultation process was facilitated by the Uganda Development Network, for the 2002/03 update it is expected that the NGO Forum will assume this responsibility.

Policy and Planning Departments taking a leading role in both exercises. SWAP proposals are developed against the framework of resource constraints provided by the MTEF.

7. Basis and Process of Organisational Expenditure Planning

7.1 MTEF preparation

Preparation of the MTEF follows what might be described as a generally top-down approach:

- Broad ceilings are disaggregated by sector, institution and LG conditional grant programme.
- Institutions are responsible for determining allocations with their area of responsibility and for setting the criteria and allocations for LG conditional grants for their sectors. These are incorporated into the SBFP and then fed back up to MoFPED. The SWG involves all major departments and agencies in a sector.

There is no requirement for ‘bottom-up’ costing of priority programmes for inclusion in the MTEF. Rather the SBFP exercise makes use of such costings where these have been developed (for example in the context of more detailed programme review and costing exercises). LGBFPs do not feed directly into the finalisation of the current year’s national MTEF.

The absence of a requirement for ‘bottom-up’ costing, ensures that the MTEF exercise focuses on strategic allocative issues within a realistic resource constraint. It avoids the risk of substantial work being done in developing costings that cannot be realistically financed. However, the realism of the MTEF does depend on periodic programme review and costing exercises being undertaken at the sector level – and a priority should be to extend the coverage of such exercises.

In terms of functional/institutional classification the MTEF resource ceilings are broken down by sector and within sectors by institution and LG grant. In theory, SWGs can reassign expenditures between these categories during the course of preparation of the MTEF, subject to the restrictions on reallocation of between the major economic expenditure items.

In terms of economic classifications the MTEF resource ceilings are broken down between: (i) personnel costs; (ii) non-wage recurrent expenditure; (iii) domestic development expenditures; and (iv) externally financed development expenditures. Resources cannot be reallocated between personnel costs and the other categories, but can be between non-wage recurrent and domestic development. MTEF allocations for externally financed development are indicative with the final allocations being dependent on substantiation of the available (or expected) funding. As a result the final budget allocations may vary substantially from those in the BFP.

Parliament votes on the total expenditure allocations by ministry for the recurrent budget (Vote) and the development budget (Head). It also approves the budgets of statutory bodies (Judiciary, Parliamentary Commission, Inspectorate General of Government, Uganda Human Rights Commission, Electoral Commission, Uganda Aids Commission).

7.2 Organisational expenditure ceilings

In principle the resource ceilings set in October at the outset of BFP preparation are non-negotiable. The task of the SWGs is to prepare the SBFP ‘ensuring that the proposal fits within the budget ceiling indicators’.¹¹ However, the SBFP can also include a ‘sub-section on unfunded priorities in

¹¹ MoFPED (2001) Terms of Reference and Guidelines for Preparation and Presentation of Sector Budget Framework Papers, Fiscal Years 2002/03-2004/05 (page 6).

order of ranking; including the funding required to implement them over the medium-term'.¹² In practice the listing of unfunded priorities has a very limited influence on subsequent revision of the MTEF ceilings when the BFP is finalised.

Generally performance indicators (where they exist) are set for the sector as a whole and are not applied to internal allocations within sector programmes. (Note that in the BFP performance is considered in relation to expenditure outturn rather than achievement of planned outputs/targets). Some local government conditional grants are linked to performance indicators.

7.3 Costing and priority sectors

Detailed costing is not undertaken as part of the BFP process. In the Budget, detailed allocations are set primarily on an incremental basis and in most sectors are not linked to any assessment of the unit costs of providing a particular level of service (primary education is an exception).

A number of line ministries are beginning to undertake studies to determine the costs of providing basic services. However, budget requests continue to be submitted on the basis of detailed line item allocations rather than on a more aggregated unit cost basis. Financing requirements of the priority sectors are explicitly considered in the BFP and budget guidelines.

8. The MTEF and the Budget Execution

8.1 Revisions during budget execution.

There are three types of revision during budget execution:

- Technical supplementaries (virements) – where savings are reallocated to other categories within a vote.
- Resource supplementaries – involving an increase in the Vote to be met either from an increase in the overall spending limit or from reductions in other votes. Resource supplementaries require the ex-post approval of Parliament within four months.
- Lower than planned releases of funds due to insufficient resources under the cash budget.

In 2000/01 releases for supplementary expenditures totalled Ush 115.3 billion of which Ush 25.1 billion (22%) were technical supplementaries and Ush 90.2 billion (28%) resource supplementaries. Of resource supplementaries Ush 31 billion (35%) were for covering arrears and Ush 7.8 billion to cover tax payments of government agencies to the URA.

In 2000/01 Budget releases were 98.4% of the original estimates excluding donor-funded projects. However, across sectors there were marked differences in performance with public administration exceeding its original allocation by 12.6%, while agriculture/economic functions and social services recorded shortfalls of 9.3% and 15.5% respectively.

The 2000/01 Budget Performance Report identifies public administration reform as particularly problematic with expenditures in this sector crowding out those in other sectors although it also notes that some of the planned reductions in spending on public administration may have been unrealistic. The report attributes the low level of releases in some other sectors to problems of implementation capacity and delay rather than to funding shortfalls.

¹² MoFPED (2001) Terms of Reference and Guidelines for Preparation and Presentation of Sector Budget Framework Papers, Fiscal Years 2002/03-2004/05 (page 8).

Under the new Public Finance and Accountability Bill, supplementaries will in future require prior authorisation of Parliament. This should significantly strengthen the hard budget constraint in those sectors that persistently exceed their original budget allocations. The steps taken to base the budget on more conservative revenue forecasts have also significantly reduced the overall shortfall in releases and provided greater certainty over budget allocations.

Since 1999/2000 MoFPED has published an Annual Budget Performance Report that compares funding releases with budget allocations. This is being produced bi-annually from 20010/02. The alternative of using cheques issued as a measure of in-year implementation performance is not currently feasible as there are difficulties in integrating district information. The substantial delays in presenting cheques also means that data on actual expenditure are less useful for monitoring in-year budget performance.

The Government accounts are presented to Parliament within four months of the end of the FY. Output performance is not currently monitored through the Budget process. However, in sectors in which biannual meetings with donors take place the line ministry presents such reports. MoFPED is considering standardising these reports and integrating them into the Bi-annual Budget Performance Report.

9. The MTEF and the Poverty Reduction Strategy

9.1 Integration of Poverty Reduction Strategy Processes and the MTEF/budget.

The SWG guidelines for the MTEF are not explicit about co-ordination with the PRSP exercise (but the training papers used for the LGBFP emphasise such co-ordination). However, in practice officers in MoFPED and line ministries regard the processes as being well co-ordinated since:

- the resource allocations for the PAF are determined through the MTEF/budget process.
- the SWGs see the PEAP as setting the targets for the sector BFPs which should be driving resource allocations.
- the SWGs are also the bodies responsible for revising and updating the sector PEAPs.
- the Parliament Budget Committee regards consistency with the PEAP as one element of its scrutiny of the BFP.

Specific poverty action programmes are identified in the Budget through a table showing the expenditures on the Poverty Action Fund. This operates as a virtual fund within the Budget with a table showing financing of the PAF - from HIPC savings, GoU (inclusive of budget support), general donor support, and donor project support.

The SWGs are responsible for determining priorities and targets for both PEAP and the MTEF. In the BFP, the analysis of sector targets, performance and resource allocations is presented in terms of the four 'pillars' of the PEAP. While the analysis of expenditure programmes in the MTEF is most developed in those sectors that are identified as priorities within the PEAP, the need for the MTEF analysis to be comprehensive is recognised by officials in MoFPED. Consequently, greater attention is now being given in the BFP to expenditure programmes for (i) justice, law and order; and (ii) public administration.

MoFPED regards the Poverty Action Fund as a short-term measure and it is intended that its principles and associated guidelines should be mainstreamed within the wider public expenditure process and extended across the whole MTEF.

There is recognition that the protection of budget lines under the PAF together with the protected allocations for defence spending have given rise to greater uncertainty and placed increased pressures on the funding of other non-PAF activities which are nevertheless central to role of government.

Sector proposals in the PEAP were only partially costed (except for roads where there was a comprehensive 10 year investment programme). Subsequent work on developing initial estimates of the costs of PEAP programme indicated a significant funding gap of around 37% in meeting the costs of implementing the PEAP programme. This implies that *'implementation of the PEAP/PRSP and reaching the set targets will take longer than initially expected and that the Government needs to prioritise different actions to get a more realistic programme which can be used to guide the MTEF'*.¹³

In its discussions with donors the Government has placed considerable emphasis on the issue of avoiding additionality – that resources made available by donors through the PAF should be within the previously determined MTEF/PAF sectoral resource ceilings rather than being incremental. There is concern that donors can by-pass this constraint by channelling resources through projects since external project financing is not yet fully integrated into the MTEF resource ceilings. In Uganda this issue also has a wider fiscal dimension since reducing the aid-financed budget deficit is a specific macroeconomic policy concern.

Issues of implementation capacity do not appear to have been fully analysed, partly reflecting the current weaknesses in the specification and monitoring of output indicators. However, the 2000/01 Budget Performance Report raises concerns about implementation capacities in education and economic services and social services.

Projections under the revised PEAP covered 2002/01 to 2002/03. These have subsequently been updated and rolled forward annually through the MTEF process. The long-term PEAP targets are to 2017. However, as noted above, these have never been fully costed. Linked to the forthcoming revision of PEAP, MoFPED plans to develop more comprehensive costings within the context of a long-term expenditure framework (LTEF).

Linked to the PEAP considerable emphasis is being given to improving monitoring and accountability:

- Budget allocations for the Inspectorate General of Government, the Auditor General and the Directorate of Accounts are included in the PAF with allocations projected to increase by almost 50% between 2001/02 and 2003/04.
- Additional budget lines for monitoring of PAF programmes are also included in the PAF.

There is no separate process for detailed costing of PEAP priorities. Instead detailed costings are dependent on the development of SWAPs and therefore are within the framework of the overall sector expenditure programme. The same costings also feed into the MTEF. However, as noted above this work is on-going and comprehensive programme costings are currently only available for a limited number of sectors.

The PAF exists as a virtual budget within the MTEF. The PAF matches spending on PEAP priority budget lines with the resources saved through HIPC and earmarked donor funding. The PAF only

¹³ MoFPED (2001) Uganda Poverty Status Report 2001 (page 12).

covers two of the four PEAP pillars (increasing the incomes of the poor and improving the quality of life of the poor).

Allocations to the PAF budget lines are made through the normal MTEF and budget process. However, there are additional earmarked resources in the Budget for monitoring PAF programmes that are provided to districts, line ministries and MoFPED.

There is no clear consultative process on the PEAP involving district councils. MoFPED intends to develop such a process through the LGMTEF process rather than by establishing a separate mechanism. The conditional grant mechanism has been used as the means for channelling resources to PEAP priority areas. This represents a top-down approach to influencing LG budget decision-making.

10. The MTEF and Local Government

10.1 Local government autonomy

Since the early 1990s, Uganda has implemented a major and far-reaching government decentralisation. In the 2002/03 Budget 33% of all expenditures are planned to be undertaken by LGs.

The first phase of the decentralisation process in 1993/94 involved decentralisation of recurrent budget expenditures to 13 pilot districts. This was extended to 25 districts in 1994/95 and to all 39 districts in 1995/96. The investment budget was decentralised from 1998/99 starting initially with education. The number of districts has now increased to 56.

LGs derive resources from three main sources:

- Unconditional block grant (around 10% of total resources)
- Conditional purpose related grants (around 75% of total resources)
- Own revenues (around 15% of total resources)

Conditional grants (22 recurrent, 5 development) provide a mechanism for ensuring that that resources are directed to priorities under the PAF. The majority of conditional grants are tied to key sectors in PEAP – primary education, primary healthcare, water and sanitation, rural roads and agricultural extension.

However, there are concerns that the predominance of conditional grants in the financing of LG budgets is undermining the autonomy and discretion of LGs and that in the planning of sector guidelines and policies LG structures are not involved.

LGs are required to present monthly financial returns. For conditional grants there are additional grant-specific quarterly physical and financial reporting requirements to the line ministries. Following an evaluation of these reports the sector ministries request MoFPED to release funds for the subsequent quarter.

Reporting requirements for conditional grants are specific to each grant. This results in LGs having to produce a large number of reports in different formats. This places considerable strain on the limited capacities of LGs.

It has been recognised that the present system is too restrictive and that there is a need to rationalise the conditional grant structure and reporting requirements. The Fiscal Decentralisation Strategy

(FDS) proposes channelling resources to LGs via two transfer systems a Recurrent Transfer System (RTS) and a Development Transfer System (DTS). The number of conditional grants will be reduced to allow for greater discretion in resource allocations between programmes within sectors and to a limited extent between sectors. A common reporting structure for conditional grants will also be introduced.

10.2 Matching of authority and accountability

Responsibilities of LGs are specified in the Local Government Act (1997). The Local Government Financial and Accountability Regulations (1998) sets out the corresponding financial authorities and requirements. Additionally Treasury Instructions are issued as needed.

LGs are expected to implement their activities within the framework of the sector goals and policies that are set by the line ministries. Line ministries have a specific budget line for monitoring the implementation of programmes implemented by LGs.

10.3 Local government medium-term resource projections

Central government provides three-year forecasts for LG unconditional and conditional grants, with conditional grant allocations broken down by sector and programme. These are communicated by MoFPED to LGs at Regional LGBFP Workshops held in October.

LGs include a forecast of local revenues in their LGBFPs. These are often unrealistic. For example in Tororo District budgeted revenues for 2001/02 were Ush 1.9 billion. Despite this estimate subsequently being revised downwards in the LGBFP to Ush 606 million, estimated revenues for 2002/03 were still projected to increase to Ush 2.4 billion in 2002/03. LG revenues are not included in the national BFP.

Three year expenditure projections are included in the LGBFPs. Because of the dominant role of conditional grants within LG Budgets there is a high level of consistency with the central government MTEF. LGBFPs are prepared by '95%' of all LGs. They were introduced for the first time with 2000/01 Budget. Because they are still evolving, their quality is variable and in some cases there have been difficulties in matching LGBFP projections with subsequent budget and workplan. Consideration is being given to merging the LGBFP with the annual work plan and with the updating of the District Development Plans. LGBFPs are approved by the District Council. They are credited with having enhanced planning activities within LGs and monitoring of LG activities.

10.4 MTEF support for decentralisation

The MTEF has provided a multi-year framework within which LGs are able to plan their activities and budgets allowing for greater predictability in budget planning. This linkage is reinforced by the predominance of conditional grants in the financing of LG programmes. The MTEF has helped to provide an enabling environment within which LGs are better able to plan their activities.

11. Quality of Information

The quality of financial information is improving and is being better used for monitoring (Bi-Annual Performance Monitoring Reports). It is generally adequate for monitoring of overall activities at institution and sector level. The present budget structure does not easily facilitate monitoring at the sub-functional (programme) level.

The absence of a sub-functional or programme classification means that the budget structure does not necessarily lend itself to analysis of costs by activity, project output and programme. However, line ministry planning units and sector staff in MoFPED will often maintain their own analysis.

Cost information on activities financed from LG conditional grants is often better since these are determined on the basis of unit costs and LGs are required to report on physical implementation.

Budget reporting systems are generally not focused towards reporting on outputs and outcomes, and reporting requirements are seen more as a programme management function and left to line ministries to determine.

At an aggregate level programme outputs and outcomes are considered by the SWGs in the context of the preparation of the sector MTEF submissions and in the commissioning of programme review and expenditure tracking studies.

Output reporting on LG expenditures, both internally and in the quarterly reports for conditional grants is more developed.

12. Conclusions and Recommendations

The MTEF in Uganda has been a considerable success. It has been credited with contributing to sustained macroeconomic stability; and with facilitating a significant shift in expenditure composition towards stated policy priorities. It has provided a mechanism for integrating the PEAP within the Budget process; for linking expenditure planning at the central and local government levels, and with the introduction of LGBFPs for introducing medium term budgeting in LGs. Since 1997, the MTEF has been used as a tool for broadening stakeholder involvement in expenditure planning and review and for engaging donor agencies in the budget process consistent with their increasing involvement in budget-support operations.

There are a number of factors about the Uganda experience with introducing the MTEF that have facilitated this favourable outcome. These include:

- Ownership and Leadership. The MTEF in Uganda was initiated from MoFPED rather than being prompted by donors. It has benefited from strong leadership by MoFPED and from the outset being an integral element of the budget management cycle. The merging of the finance and planning ministries significantly facilitated its introduction.
- Sequencing and Progression. The MTEF process has evolved progressively over a decade, in contrast to those countries where a full-fledged MTEF process has been introduced from the outset. The initial priority was to realise greater fiscal discipline and the macro-fiscal framework continues to be the cornerstone of the MTEF. Only then did the focus shift towards sectoral resource allocations. Broadening stakeholder participation in the MTEF process has only occurred relatively recently. This progression has facilitated sustainability by allowing existing progress to be consolidated before moving to the next stage of MTEF development.

- Emphasis on a Strategic Approach. The focus of the MTEF in Uganda has very much been at the strategic level – the macroeconomic framework and on linking sector policies to broad resource allocations. This has reduced the capacity demands of the MTEF exercise, and has avoided the risk of it becoming ensnared in a more detailed forward budgeting exercise.
- Environment of Sustained Economic Development. Over the last ten years Uganda has experienced a period of sustained and relatively rapid economic growth. This has provided a conducive environment in which to introduce an MTEF – predictability for budget planners, increasing real levels of public sector resources, improvements in the performance of public services, and increased institutional capacities linked to more realistic remuneration levels.

Nevertheless, there remain major limitations in the MTEF exercise that will need to be addressed as the exercise is taken forward in the coming years.

- Formal Status of the MTEF. Despite Uganda having been one of the earliest countries to introduce an MTEF, its role and place within the budget cycle has never been clearly spelt out, for example in a budget procedures manual. Since the BFP has been presented in the form a Cabinet memorandum, its circulation has been quite limited (copies are not even held in the MoFPED library). This has significantly undermined the transparency of the MTEF process.
- Involvement of Parliament. The requirement under the 2001 Budget Act for the BFP to be presented to Parliament prior to the submission of the annual budget is a positive development. However, it also reflects to some extent a response to the failure to open up the strategic budget planning process to Parliamentary scrutiny. One consequence of the new legislation having been introduced as a private member's bill is that its provisions stand separate from the wider public finance legislation. The 2001 Budget Act could also be taken as giving the legislature a role in revising the executive's budget proposal, akin to the role of the US Congress, that would be contrary to other features of the budget system that are based on the Westminster model.¹⁴
- Integration with the Budget Cycle. Although the MTEF and Budget processes are well integrated, a number of problems have been identified with the present timetable:
 - There is insufficient separation between the strategic MTEF/BFP stage and the preparation of the detailed budget estimates. This results in decisions on broad budget allocations being taken concurrently with the detailed preparation of the budget, necessitating repeated revisions of the MTEF resource ceilings and budget estimates.
 - Because the MTEF table is routinely updated throughout the year, there is a risk of updating of the framework becoming an incremental budgeting process rather than one in which changes in allocations reflect deliberate choices of budget strategy.
 - Because the BFP is presented to Cabinet in March immediately prior to finalisation of the Budget, it has to provide a firmed up budget framework with little opportunity of analysing and presenting strategic budget choices for Cabinet decision. In earlier years the intention was to present the BFP to Cabinet prior to issuing of the Budget Guidelines (although it is not clear that this was ever achieved).
- Comprehensiveness. At an aggregate level the MTEF includes all public expenditures, except for those financed from LG revenues. However, as a tool for determining the allocation of resources, the MTEF process is much less comprehensive and there remain major limitations. This is somewhat surprising given that the MTEF process has now been operating for ten years:
 - Although the MTEF is comprehensive of all sectors with SWGs now covering the entire spread of the Budget, the analysis of public expenditure priorities continues to be focused towards the sectors and programmes associated with the PEAP. In practice issues of expenditure prioritisation apply across the whole budget and there is consequently a need to

¹⁴ See Moon, Allister (2002) Public Expenditure Reviews (PERs) and Budget Process in Uganda and Tanzania (mimeo).

strengthen the analysis and review of expenditure programmes outside of the PEAP priority programmes.

- The MTEF resource ceilings are only binding for non-wage recurrent and domestic development allocations. Wagebill spending and donor projects, which account for almost half of all public expenditure, continue to be determined to a large extent independently of the MTEF significantly undermining its role in budget prioritisation and management.
- Information on donor financed projects remains insufficiently integrated into the budget planning process. Despite, having a separate department responsible for aid liaison, MoFPED still lacks a mechanism for projecting expenditure at the project and sector level. As a result, in the 2002/03-2004/05 MTEF, sector allocations were projected forward pro-rata with those for the 2002/03 Budget.
- Information on expenditures at the sub-functional or programme level continues to be very limited. In the MTEF expenditures within sectors are only broken down between institution and LG grant. Departmental (sub-vote) allocations and allocations for individual LG grants give some indication of sub-functional allocations for the recurrent budget, but not for the development budget where allocations are by vote and project. With significant levels of recurrent spending being financed from the Development Budget, it is difficult to determine total levels of recurrent spending across major programme areas.
- Budget Management Systems. While the MTEF process has encompassed substantially improvements in macro-fiscal management and in resource allocation processes, progress with strengthening the operational aspects of budget management has been more limited. Thus:
 - progress has yet to be made in adopting a common budget structure encompassing both development and recurrent expenditures within a single sub-functional (programme) and economic classification. This is particularly important when the development budget includes substantial recurrent expenditure.
 - without such a structure, it has been impossible to develop an effective set of budget performance indicators or to focus budget planning around results;
 - the introduction of a financial management information system (FMIS) encompassing such improvements and allowing for easier monitoring of budget performance has been substantially delayed.

Based on the study findings the following recommendations can be made:

- Clarification the role of the BFP in the budget cycle. MoFPED should spell out more clearly: (i) the role of the BFP within the Budget Cycle and the requirements for its preparation; (ii) the timetable for preparation of the BFP and how this fits with the subsequent preparation of the detailed annual budget; and (iii) the requirements for ensuring a wider dissemination of the BFP in setting out the Government's strategic expenditure plan for the coming three years.
- Reducing the present fragmentation in expenditure planning by bringing wagebill allocations and externally financed projects within the overall sector resource ceilings and allowing the SWGs to consider trade-offs between the different categories of public expenditure. Linked to this the role of the Ministry of Public Service should change to one of supporting line ministries with establishment and wagebill planning (rather than assuming this responsibility directly).
- Introduce a common sub-functional (programme) and economic expenditure classification that would allow for the integration of the recurrent and development expenditures within a single budget. This is essential to extending the BFP analysis to the level of functional programmes that cut across ministries and levels of government (at present this is only partially achieved with the LG conditional grants).
- Increased emphasis on programme outputs. Within the MTEF and budget process and in the context of the introduction of FMIS there should be a greater emphasis on linking expenditure planning and monitoring to programme outputs.

- Review the role of the PIP. The present PIP process is not providing accurate and timely estimates of project spending. The move to an integrated budget will also change the role of the PIP within the expenditure planning process. Thus the PIP should no longer focus on strategic public expenditure decisions (which should be taken in the context the MTEF/BFP) but instead be oriented to towards the technical appraisal of projects and the phasing and monitoring of implementation and expenditures against total project cost.
- Elaboration of a long-term expenditure planning perspective. With the MTEF process in Uganda having reached a relatively mature stage, it is becoming increasingly evident that medium-term expenditure plans need to be placed within a longer term policy and planning perspective. MoFPED should therefore proceed with its plans to elaborate a long-term expenditure framework.

There is an opportunity to resolve these issues by with the preparation of the new Public Finance Bill to provide a unified budget law and which should incorporate the provisions of the 2001 Budget Act.

There is a high degree of consistency between the PRS and MTEF in Uganda with the Poverty Action Fund (PAF) being incorporated as a virtual fund with in the MTEF. However, the study findings suggest that a number of issues remain to be addressed:

- First, there is evidence that the PRSP has yet to be adequately costed and that full costing of the proposals would highlight significant resource shortfalls. The forthcoming PRSP updates should consider this issue and whether it may be necessary to adjust PRSP targets to take account of updated information on costings and likely resource constraints.
- Second, the analysis of public expenditure implications of the PRSP is to some extent limited by the present absence of a sub-functional (programme) classification in the Budget applied to both recurrent and investment budgets.
- Third, the practice of prioritising the release of non-wage recurrent expenditure allocations to the PRSP priority sectors and programmes results in increased uncertainty in the funding of programmes outside of the PRSP with resultant risks to the efficiency and effectiveness of these programmes. This suggests a requirement for a more balanced approach to prioritising budget releases, perhaps guaranteeing the shares of resources to be released to the priority sectors.

While the PAF has been a useful tool in focusing attention on the financing requirements of PRSP, there is a risk that it has diverted attention to considering expenditure prioritisation and management issues in other sectors (which impact on the overall effectiveness of public expenditure). As the PRSP process matures, its funding requirements should be considered in the context of the overall budgetary resource envelope and the separate PAF dropped.