CURRENCY EQUIVALENTS
Currency = Ugandan Shilling (UGS)
$1.00 = 1,622.50 UGS

FISCAL YEAR
July 1 – June 30

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>BFP</td>
<td>Budget Framework Paper</td>
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<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
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<tr>
<td>CEM</td>
<td>Country Economic memorandum</td>
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<tr>
<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
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<tr>
<td>CGE</td>
<td>Computed General Equilibrium</td>
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<tr>
<td>CIFA</td>
<td>Country Integrated Fiduciary Assessment</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
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<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FSA</td>
<td>Fiscal Sustainability Analysis Committee</td>
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<tr>
<td>GDP</td>
<td>Growth Domestic Product</td>
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<td>GFS</td>
<td>Government Financial Statistics</td>
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<td>GOU</td>
<td>Government of Uganda</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LTFE</td>
<td>Long-term Expenditure Framework</td>
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<td>MAMS</td>
<td>Maquette for MDG Simulation</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MOPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
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<td>MTEF</td>
<td>Medium-Term Expenditure Framework</td>
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<td>NGO</td>
<td>Non Governmental Organization</td>
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<td>NWSC</td>
<td>National Water and Sewerage Corporation</td>
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<td>ODA</td>
<td>Overseas Development Assistance Office</td>
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<td>OPM</td>
<td>Office of the Prime Minister</td>
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<td>PA</td>
<td>Poverty Assessment</td>
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<td>PAF</td>
<td>Poverty Alleviation Fund</td>
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<td>PEAP</td>
<td>Poverty Eradication Action Plan</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PEMCOM</td>
<td>Public Expenditure Management Committee</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PETS</td>
<td>Public Expenditure Tracking Surveys</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>UEDCL</td>
<td>Uganda Electricity Distribution Company Limited</td>
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<td>UETCL</td>
<td>Uganda Electricity Transmission Company Limited</td>
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<tr>
<td>UPE</td>
<td>Universal Primary Education</td>
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<tr>
<td>UPPET</td>
<td>Universal Post-Primary Education</td>
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<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
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<tr>
<td>USE</td>
<td>Universal Secondary Education</td>
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</table>

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Task Economist: Lars Sondergaard
ACKNOWLEDGEMENTS

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INTRODUCTION

KEY MESSAGE

Uganda needs to increase infrastructure investments if impressive growth is to continue. But the Budget is showing increasing signs of stress from expenditure pressures and fiscal tightening. Recent increases in employee costs in central Government functions of public administration, justice law and order, defense, prisons and police have deteriorated the composition of the Budget from the perspective of growth. In common with global experience in tight fiscal circumstances, public infrastructure spending is getting squeezed. Along with ambitious policy commitments such as USE, these expenditure trends suggest a further squeeze on infrastructure and maintenance is inevitable, in which case growth could slow down.

How should Uganda respond to these fiscal challenges? Whereas there is scope for prudent new concessional borrowing for infrastructure, disbursement rates in infrastructure projects are too low, making it a priority to address constraints to effective spending. As part of a fiscal strategy for growth, Uganda needs in the short to medium-term to rapidly improve revenue performance without taxing key growth sectors, and to shift the composition of spending towards infrastructure. A compositional shift will require deep public sector reforms, early action on postponed reforms to public administration, and a working program to reduce waste and increase the efficiency of public expenditures, including in PAF priority sectors and agencies. A reduction in waste and an increase in public sector efficiency will ultimately require more accountability for the delivery of quality public services than is evident in Uganda today. It will also require a much more systematic effort by spending Ministries and Agencies: a more structured and a much more strategic approach to public service efficiency from the Ministry of Finance could be built into budget framework papers as well as preparation of the next PEAP.

Failure to respond to the challenge of increased fiscal pressures and to the deterioration in budget composition relative to Uganda’s growth requirements will slowly put a brake on economic growth as the economy outstrips its infrastructure. Prudent macro management means there is no fiscal crisis looming for Uganda, although slower growth will leave the Budget more vulnerable to shocks, the most risky being an aid shock. Instead the deterioration in the Budget will manifest itself in declining service quality in public education, public health, and infrastructure for a rapidly rising population which will likely add to inequality and cause increased dissatisfaction amongst Uganda’s citizens.

The fiscal strategy mapped out in chapter 8 of the PEAP should be realigned to meet these challenges. We argue why and suggest how.

SCOPE: WHAT THIS REPORT COVERS

This report marks an evolution from past PERs. It’s theme is resource allocation rather than financial accountability or fiduciary risk¹, taking the PER back “upstream” into the realm of economics. We

¹ The 2002 PER reported on “Progress and Challenges of Budget Reforms”, the 2003 PER looked at “Budget Reforms At the Central and Local Government Levels”, and the 2004 Country Integrated Fiduciary Assessment,
shift gears - from a diagnostic account of public financial management systems, processes, institutions and reforms in past PERs, to an economic analysis of the end-results of these developments here. We present detailed analysis of two significant outcomes of the budget process: (i) the long-term sustainability of fiscal policy, and (ii) the efficiency of public spending. A common thread with the past work on systems is that we identify the need for improvements in the reporting of public spending data in Uganda. Data weaknesses have not precluded us from drawing conclusions from analysis of underlying trends, but the paucity of data reported on actual spending suggests the need for more focus on fiscal reporting in Uganda in future PERs.

The main theme in this report is whether room exists in Uganda’s budget for more spending to promote faster economic growth without destabilizing the economy. A growth-oriented approach is adopted to assess Uganda’s fiscal strategy. We take macro and fiscal stability as an underlying pre-requisite of growth, and therefore as the underlying objective of a growth-oriented fiscal policy. But rather than taking stability as the start and end-point of medium-term fiscal strategy, we also assess the need for growth-enhancing expenditures to maintain solvency and stability in Uganda’s budget in the long-term. The “budget” is broadly defined to include tax policy and administration, public expenditure policy, aid levels and composition, and borrowing policy. The report makes recommendations for Government’s fiscal strategy on the first two of these elements, by analyzing fiscal trends and considering how Uganda can best find additional room in the budget.

Chapter 1 of part II sets out the logic and the main arguments for growth-oriented fiscal policy. We start with a review of global experience and economic principles surrounding fiscal policy and growth. Next we discuss Uganda’s fiscal strategy and its implications for growth. Section C assesses fiscal needs by estimating the level of public spending in roads and energy sectors required to attain GDP growth at 7 percent. Section D summarizes results from a macro model (MAMS) to discuss where Uganda should look in the budget to find additional resources for growth priorities.

In Chapter 2 of the main volume we introduce a practical methodology for identifying waste, and assessing efficiency in public spending in Uganda. As a poor country with limited resources and ambitious development objectives, Uganda cannot afford to get low returns on public spending. Calls for “better value for money” have featured in World Bank Public Expenditure Reviews since at least 2002; but these have come without a clear definition of what better “value-for-money” means for a service delivery sector. In the first section of Chapter 2 we trace Uganda’s existing policy framework for improving efficiency in spending. In section B we set out an operational approach to looking for ways to quantify inefficiency and improve efficiency of spending, using the example of the education sector. Section C considers ways to protect productive infrastructure in the Budget. We end by suggesting a program of practical reviews to identify waste and inefficiency in service sectors and monitor key indicators in sector Budget Framework Papers. These are aimed at instilling a culture of better use of inputs to deliver outputs in the public sector.

provided a comprehensive assessment of many aspects of Uganda’s public financial management systems for all levels of Government. The 2006 PER looked at debt and fiscal sustainability.

Poverty reduction is taken as implicit in the targeted growth path, which is drawn from the Bank’s recent analysis of poverty (World Bank (2006)), and of growth in Uganda (World Bank (2007)). However, more analysis is needed to establish the highest returns to public expenditure for poverty reduction in Uganda.

Trunk and urban roads and energy sectors were identified as priorities for expanded public investment in the growth diagnostic undertaken for the recent Country Economic Memorandum.


We also consider the impact of the tax structure on growth. 7% growth is the PEAP target.
Using the education sector as an example, we illustrate in chapter 3 what could be achieved by reducing “waste” and improving efficiency in sector spending in Uganda. Section A lists the scope of the analysis presented, the main conclusions, and recommendations. Section B sets out trends inputs, outputs and unit costs in the education sector in Uganda. Section C presents the efficiency analysis, using the methodological framework presented in chapter 2 and data obtained from both the Education Management Information System and a unique school survey undertaken as part of this PER.

Chapter 4 presents a fiscal sustainability analysis (FSA). The first section summarizes the main conclusions. The second reviews recent trends in debt, deficits and revenue and expenditure, documents the data used for the base year, and sets out trend growth rates in expenditure used in the baseline projection. The third section uses a fiscal forecasting tool to present a baseline ("business-as-usual") forecast, highlighting the likely evolution of expenditures given the PEAP fiscal strategy, recent trends, and recent policy announcements. We end the section by subjecting our baseline forecast to a sensitivity analysis of macro shocks. The fourth section presents a growth-oriented fiscal policy in which the composition of expenditure is more favorable to future economic growth. Finally, the fifth section concludes with implications of the analysis for the 2008 and future budget discussions.

Chapter 5 discusses in more detail the priorities for public expenditure to address economic infrastructure constraints. The chapter benchmarks Uganda’s infrastructure relative to other countries. We assess whether Uganda is making the most of donor and private finance for infrastructure, assess whether resources are appropriately allocated within infrastructure sectors. We then assess whether the sectors are being run efficiently, whether maintenance is adequate, and whether project appraisal and implementation procedures are adequate, and we make recommendations on how effective spending can be accelerated.

The final chapter discusses tax policy for growth. Uganda’s fiscal strategy revolves around increased revenues and reduced reliance on aid. We do not cover aid and debt strategies in detail in this report, except to urge caution in reducing the deficit too quickly in the medium to long-term, noting the potential for increasing aid to Uganda for highly import-intensive infrastructure investments in the medium to long-term without harming competitiveness and macro stability. The chapter deals with tax revenue, identifying how weaknesses in Uganda’s tax system are limiting revenue mobilization and growth. The final section suggests how to lay the foundations for Government to develop a tax expenditure account.

The report does not cover fiduciary risks or equity in public services, nor does it undertake new growth diagnostics. This report intentionally avoids a review of the budget process, recent reforms, institutions, and financial management systems, except to identify those which distort allocations from what was intended in the budget, or which allow leakage and waste.6 We leave the detailed assessment of fiduciary risks to the on-going Public Financial Management Performance Report which is underway through the Public Expenditure Management Committee (PEMCOM). Similarly, we leave analysis of equity and benefit/incidence and the assessment of the impact of public services on household poverty levels to the Annual PEAP Implementation Review, and to periodic poverty

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6 This shift was motivated by two key developments; (i) the adoption of a comprehensive CIFA action plan by the Government which is being updated and monitored annually meant there was less need for analysis of reforms and systems through the PER, and (ii) recognition that most of the PER dialogue between Government and development partners over the past 3 years has been on new policies, resource allocations and pressure on the budget and on the Poverty Alleviation Fund (PAF), without solid analysis to underpin it.
and inequality assessments. Prospects and requirements for economic growth in Uganda are taken from the recently completed Country Economic Memorandum.

A key aim of the analysis presented was to demonstrate to Uganda’s officials some practical approaches which could improve the allocation of public resources for growth. In undertaking the analysis the PER team developed analytic tools and has recommended specific measures for Government to implement, which would help to identify the scope for more efficiency and value for money from tax policy and public spending.

Target Audience:

Who should read this report? The theme of this report mirrors the stated objectives of the 2005/06 Budget. The first and fourth chapters of the report should appeal in particular to those policy makers and technicians involved in setting macro economic and fiscal policy. The fiscal sustainability tool in chapter 4 should help those deciding on key priorities for expenditure reforms to maintain fiscal stability. In preparing the LTEF and the MTEF, the Macro Unit in the Ministry of Finance may be interested in adapting the fiscal sustainability tool to demonstrate macro and budget trade-offs. The Macro Unit may also be interested in internalizing the MAMS model we used to simulate the impact of alternative expenditure composition on achievement of the PEAP targets. The Budget Division in Finance, and Budget Directorates in sector Ministries are the main clients for approach for assessing efficiency, and they may wish to reflect on the recommendations for improving BFPs. The chapter on education efficiency should be of interest to the Sector Working Group on education, and could form the basis for Ministry of Education to demonstrate its concern to ensure improvements in value for money as they prepare their Budget Submission for 2007/08 and their BFP for next year. Those working on value for money audits in the Auditor General’s Office, those engaged in public service performance enhancement, and those in OPM may find useful the template for considering efficiency in public sector services.

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7 We developed a fiscal sustainability tool for the Ministry of Finance’s Macro Unit and a template of issues and survey approach for the Budget Directorate in Finance to encourage sectors to set targets for improving value for money in their Budget Framework Papers. We also updated the Education sector’s ESSP model, extending it to model USE.

8 See Republic of Uganda “National Budget Framework Paper For Financial Years 2005/06-2007/08. The objectives on page vii 3rd paragraph include increasing resources for agriculture, value addition, infrastructure development, raising domestic revenue and improving efficiency in Government expenditure.
EXECUTIVE SUMMARY

This report is structured around stand-alone but inter-related chapters on technical topics. The main strategic messages and recommendations for policy makers to consider in planning a growth-oriented fiscal policy are set out below.

UGANDA NEEDS TO INCREASE INFRASTRUCTURE INVESTMENTS AND MAINTENANCE SPENDING IF IMPRESSIVE GROWTH IS TO CONTINUE

The public capital stock\(^9\) in Uganda is already low, and rapid economic growth is outstripping growth in the public capital upon which it relies. Uganda’s infrastructure access and quality rates are low, and so is the rate of improvement in them. Although not particularly poor for a country with per capita income of around US$ 250 per capita, they are low for a rapidly growing economy, and very low compared to the economies Uganda is seeking to emulate. The situation in some infrastructure sectors is steadily improving. But it is improving at too slow a rate given Uganda’s strong economic growth and very fast population growth; both of which are likely to drive high urbanization in the future, as Uganda’s workforce doubles in size in the next 15 years. To sustain annual GDP growth over 6.5 percent, we estimate in chapter 1 that the public infrastructure stock in Uganda would need to double in 15 years. This means net additions to the public infrastructure stock\(^10\) of about $120 million per year in 2005/06 prices, which is about 1.2 percent of GDP or about half of gross infrastructure spending in 2004. Key indicators of infrastructure outcomes in chapter 5 suggest that a reallocation in the budget in favor of transport and electricity sectors is justified.

Within infrastructure, Uganda needs substantial new investments in roads and energy infrastructure to bring down the costs of transport and electricity. Relative to other countries, Uganda’s stock of paved roads is very limited at just around 7 percent compared with an average of 27 percent in low income countries. This raises transport costs, which in turn reduce the competitiveness of Uganda’s products abroad. High transport costs are particularly problematic for Uganda because it is a landlocked and rural country\(^11\)- trading and moving products cheaply is a very important aspect of the economy. In addition to poor access to paved roads, Uganda’s transport costs are inflated by high cost petroleum and diesel. Household access to electricity at 8.6 percent is much lower than the average for Sub-Saharan Africa (27.2 percent) and the average for low income countries (34.7 percent), especially outside of Kampala. The costs of un-served electricity to the formal economy are estimated to be high (and outages have greatly increased since 2005) suggesting higher investment in energy is needed for Uganda to

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\(^9\) The use of the term public capital here is non-trivial and refers to the stock of investments in physical capital of a public good nature. Government in Uganda has not, and must not, be tempted to produce investments of a non-public good nature. The experience of countries that have done this is bleak. Schmitz, James A. Jr “Government production of investment goods and aggregate labor productivity”, Journal of Monetary Economics, January 2000 estimates that this policy alone reduced productivity in Egypt substantially.

\(^10\) After netting out depreciation and excluding maintenance costs. NB this is not capital, but infrastructure.

continue a path of structural transformation. Expansion of infrastructure services would help to reduce unit costs and should therefore help to bring down high prices. Given the economies of scale which exist in utilities, low access significantly raises unit costs and therefore the price of Uganda's electricity and telecommunications.

**Additional public infrastructure spending is needed and should be more efficiently allocated to Uganda's infrastructure spending priorities.** Uganda has attracted a higher share of aid and private investment for infrastructure than its peers. (Private investment in infrastructure accounted for about 27 percent of total infrastructure investment between 2003 and 2005). Private investment finance in infrastructure has already been unusually strong. In common with global experience it has come mostly in telecommunications and to a lesser extent electricity, and in the power sector it has taken a long time coming and has been expensive. However, despite high aid and private finance, Uganda still allocates less to infrastructure in total than other low income countries; both as a share of GDP and in per capita terms. (Uganda's infrastructure spending per person is around $19, less than half that of neighboring Kenya ($44), and around 60 percent of Tanzania's ($31)). This suggests there is a greater role for public finance for infrastructure investment and maintenance in Uganda. Aid to infrastructure is skewed towards rural access, with insufficient focus on infrastructure which is more closely linked to main trunk road corridors and urban growth centers. The very recent rise in the share of spending after several years of declining shares is a start. But much of this has been aimed at meeting recurrent costs of addressing the energy crisis, for which Government is now subsidizing the recurrent costs of expensive rented thermal generators.

**Maintenance spending in particular is too low, especially in the roads and electricity sectors, but also in water.** For example, we calculate in chapter 5 (section B5) that on average, normative unit maintenance costs should be around $2,200 per kilometer of road. Uganda allocated about a fifth of that amount to road maintenance in recent years. In the electricity sector maintenance was about one half the estimated norms, but for the distribution company UEDCL in 2004 is was just 2 percent of the international benchmark, signaling major neglect. Consequently losses are high in electricity (5 percent in transmission, and over 35 percent in distribution), and Uganda's urban roads are poorly maintained. The water company, NWSC has an unaccounted for water loss rate of 45 percent and suffered a high 4 pipe breaks per kilometer in 2004.

**Whilst increasing public investments and maintenance in infrastructure, Uganda needs simultaneously to increase implementation capacity in infrastructure sectors.** Infrastructure Ministries are under-utilizing their budgets. In electricity, roads, water and rail, there have been quite substantial differences in resources budgeted by the central government and those actually spent, signaling implementation constraints. For example in 2003/04, infrastructure sub-sectors spent only half of the resources initially promised to them in the Budget (see chapter 5 section B7). In 2004/05 the figure was up to 90 percent, but largely because of an increase in emergency spending in the electricity sector, which was no budgeted. Slow project disbursement and procurement problems escalate the costs of road contracts. Unless proper institutional structures are in place to identify growth priorities, to allocate infrastructure resources efficiently, to maintain the capital stock, and to address implementation, additional spending will not necessarily generate commensurate benefits for the economy. For the roads, rail, electricity and water sectors, the public sector's role beyond regulation remains important but needs to be

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12 We are not suggesting public provision here rather that Uganda needs to recognize the need for publicly financed investment. Chapter 5 discusses alternative models, and includes a warning regarding possible contingent liabilities from Public Private Partnerships.

13 Losses in distribution include theft and non-payment.
clarified, particularly with regard to guarantees, indirect subsidies, and the final costs of infrastructure to users. Greater transparency is needed over the purpose and accounting use of funds in off-budget funds in the energy sector. In chapter 5 (section B7) we hint at priorities to fix project implementation and monitoring in the roads sector. In addition we suggest improvements to the selection process for new investment projects, giving parastatals a greater role in investment decisions, and comprehensively monitoring their performance in reducing unit costs and physical losses.

**Key Recommendations:** (for a fuller list see summary and conclusions to chapter 5).

1. Address the backlog of maintenance in the road sub-sector, as well as water sub-sector. This can start immediately.
2. Identify and address aggressively the causes of slow disbursements in the roads sector, and increase budget allocations in tandem.
3. Establish programs to fix losses in electricity and water, and encourage parastatal investments in tandem.

**AS THE BUDGET HAS COME UNDER STRESS, ITS COMPOSITION IS DETERIORATING FROM THE PERSPECTIVE OF GROWTH AND HENCE LONG TERM MACRO STABILITY**

**Symptoms of fiscal stress have become evident in Uganda.** These include the continued build-up in the stock of arrears, regular use of supplementary budgets, late cash releases to spending units which lead to a variance in some sectors between releases and actual expenditure, and the significant maintenance backlog in infrastructure. There has been no financing shock; tax revenues have been sluggish but are now rising slightly in relation to GDP. Economic growth has been solid, and whilst reliance on aid is being managed downwards, debt relief has provided additional finance. The causes of stress are mostly on the expenditure side. In our judgment the primary source of pressure on spending is not so much weaknesses in expenditure control, although much remains to be done to improve public financial management as identified in the 2006 PEFA indicators. Instead our assessment is that stress in the Budget in Uganda owes more to a recent deterioration in the composition of spending than to spending in excess of available finance. To understand this deterioration it was necessary to look at recent trends in spending.

**Our analysis of expenditure trends was hindered by significant weaknesses in Uganda's expenditure reporting.** Uganda's chart of accounts is now rated GFS compatible, but routine reports in a GFS format are unavailable for macro analysis. Consolidated actual expenditures are routinely available in the Government's accounting systems for only around 40 percent of spending, and perhaps for this reason the Ministry of Finance analyzes only expenditure releases. Donor projects account for 27 percent of total expenditures and are off-budget. Data on actual spending for the remaining 73 percent of public spending are not reported for District councils, which account for 27 percent of releases in the audited accounts for 2004/05. The economic breakdown of recurrent spending is unavailable for the statutory agencies which were assigned votes on the Budget. Together they accounted for 139 billion shillings of spending in 2004/05. It

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14 We were unable to get published audited accounts for the Rural Electrification Fund, the Credit Support Facility (both run by the Rural Electrification Agency), or the Tariff Stabilization Fund administered by UETCL.
15 Government Financial Statistics.
16 The audited accounts for 2005/06 were still not published at the time of writing this report (end-June).
is impossible to assess the economic classification or the actual spending of "other current grants to agencies" which accounted for 10 percent of total spending in 2004/04. Finally, some 19 percent of the Budget - a considerable share - is classified as "other recurrent expenditure", with most of this being spent in 2004/05 by the Police, the Electoral Commission, and Parliament. Conflicting sources of information exist on numbers of civil servants and no numbers are readily available for public servants. No detailed and readily useable historic data series is published anywhere in Uganda. It takes a determined spirit to undertake an economic analysis of expenditure trends, to forecast the implications of new and existing policies, or to attempt an evaluation of budget performance in this data environment.

Nevertheless, we assess that since 2002 spending pressure has come from employee related costs and from central Government functions in lower priority sectors. Front-line service delivery in health, education and infrastructure has been squeezed. Employee related costs have been the main driver of spending within recurrent expenditure, and now comprise a significant share of total spending, amounting to about 51 percent of total spending (figure 2). Real wages in fact grew by 6.6 percent in the period 1998/9 to 2005/06. The number of civil servants rose by 2.4 percent, giving real growth in the wage bill of 8.7 percent compared with growth in real development spending of only 1.1 percent. The public administration "sector" has been overspending its budget since the MTEF began in 1997/98.

![Figure 1. Composition of spending 1998/9 – 2005/06: Economic Classification](image)

- 8 -
Figure 2. What is Included in "Non-Wage Recurrent Expenditure" and Who Spends It?

2005/06 total releases (excl. donor-financed development expenditure) broken down by more detailed economic classification and by spending agency/vote

<table>
<thead>
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<th>Category</th>
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<tr>
<td>Maintenance</td>
<td>5%</td>
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<tr>
<td>UPE cap grant</td>
<td>2%</td>
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<tr>
<td>Utilities and rent</td>
<td>3%</td>
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<td>Goods purchased</td>
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<tr>
<td>Classified</td>
<td>9%</td>
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<tr>
<td>Other current grants to agencies</td>
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<tr>
<td>Other recurrent expenditure</td>
<td>39%</td>
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</tbody>
</table>

In contrast, infrastructure spending (recurrent and capital) far from rising as needed for growth, is being compressed. Public infrastructure spending is getting squeezed. Between 1998/99 and 2005/06 total spending grew in real terms by 5.5 percent of GDP. Infrastructure accounted for only 0.4 percentage points of this increase. Accountability, public administration, defense, police and prisons account for about half of the increase. The observed increase in infrastructure came in the period up to 2001/02, during the period of fiscal tightening its share of real GDP has declined (figure 3). This is an unsurprising finding, being fully consistent with global experience in situations of fiscal compression (see boxes 1.1 and 1.2 in chapter 1).

Figure 3. Composition of Spending by Functional Classification, Excl. Arrears Repayment

<table>
<thead>
<tr>
<th>Year</th>
<th>Education</th>
<th>Infrastructure-intensive programs/votes</th>
<th>Accountability, justice, etc</th>
<th>Pension</th>
<th>Interest payments</th>
<th>Arrears repayment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998/99</td>
<td>14%</td>
<td>3%</td>
<td>26%</td>
<td>3%</td>
<td>13%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>1999/00</td>
<td>15%</td>
<td>2%</td>
<td>24%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2000/01</td>
<td>17%</td>
<td>2%</td>
<td>22%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2001/02</td>
<td>18%</td>
<td>2%</td>
<td>21%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2002/03</td>
<td>18%</td>
<td>2%</td>
<td>20%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2003/04</td>
<td>18%</td>
<td>2%</td>
<td>20%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2004/05</td>
<td>18%</td>
<td>2%</td>
<td>20%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>2005/06</td>
<td>18%</td>
<td>2%</td>
<td>20%</td>
<td>3%</td>
<td>16%</td>
<td>1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: MOFPED (Accountant General's detailed releases, by vote, program and item) and World Bank staff calculations
Implementation of corrective measures to address the build-up in the share of spending on employees has been weak. Fully 5 years on from the final report on a study of public administration in Uganda\textsuperscript{17}, no significant progress has been made in any of the main areas proposed for reform (pensions, local Government and Agencies). Anomalies in the pension plan for the public service were reviewed in 1998 by the IMF, again in 2001 by a DFID funded exercise and more recently in December 2004 by the Bank. A Cabinet paper on pension reform in 2006 made recommendations which will not improve the viability of the public pension scheme. The introduction of New Districts in 2005 and 2006 and the abolition of GTAX created a funding gap for local Governments of around Ush 84 billion per year in 2006 prices. Recommendations to undertake functional reviews of agencies and PIUs were made in 1998 and again in 2004, and appear in chapter 8 of the PEAP, but none have yet occurred.

Meanwhile, new policy commitments, emergency spending requirements, and population growth are adding to the spending pressure. Government committed to financing Universal Primary Education (in 1998), and committed in 2007 to Universal Secondary Education and has started implementation. In addition Government has ambitious programs in water for consumption, health, rural roads and now intends to accelerate the implementation of the Plan for Modernization of Agriculture and a rural development strategy. The current energy crisis has seen Government reintroduce budgetary subsidies for electricity consumption for the next 5 years, to offset the high costs of temporary thermal generator rentals deployed to keep the sector afloat. Meanwhile Government is considering a pay strategy which would increase the wage bill of the civil service by at least 50 percent over what is in the MTEF, even with fairly conservative projections for numbers of civil servants\textsuperscript{18}. Our analysis in chapter 4 shows that without corrective expenditure reform measures, the composition of Uganda's Budget will further deteriorate from a growth perspective (see figure 5). Private investment and growth will most likely slow down, and if so, Uganda would remain heavily dependent upon aid and concessional borrowing to finance development efforts (see projections in figure 4).

\textsuperscript{17} See Mugasha F., C. Kassami, B. Van Arkadie and A-M. Berger, 2002, Final Report of the Committee to Advise the President on More Effective Public Administration Budgeting, Kampala: Office of the Prime Minister and Ministry of Finance, Planning and Economic Development.

Figure 4. Baseline Forecast of Composition of Expenditure, Functional Perspective

Source: World Bank staff's baseline forecast

Figure 5. Baseline Scenario: Annual Real GDP Growth Decomposed in Contribution from Expenditure Side

Source: World Bank staff's baseline forecast
DOES UGANDA’S FISCAL STRATEGY CONSTITUTE A FISCAL POLICY FOR GROWTH?

Uganda’s fiscal strategy has increased the pressure on aggregate spending, which has fallen as a share of GDP. Uganda has a fiscal deficit target before grants and concessional loans. The deficit target ties additional expenditure to additional revenue collection in order to reduce reliance on aid, which has been declining in recent years. The fiscal strategy set out in the PEAP was to postpone infrastructure investments as part of the fiscal consolidation effort. Furthermore, fiscal policy is “subordinated to” monetary policy in the PEAP. To curb inflation in the face of increased aid-financed PAF spending (which has a much higher local content than large-scale infrastructure) Uganda chose to tighten monetary policy to sterilize liquidity through issuing Treasury Bills between 2001 and 2003. Interest payments on domestic debt rose rapidly, peaking at 2.0 percent of GDP in 2003/04, but have since declined with the implementation of a better mix of monetary instruments and the transfer of donor accounts to the Bank of Uganda.

Uganda’s expenditure rules have not protected infrastructure spending. Uganda protects expenditure priorities in the Poverty Alleviation Fund (PAF) through ring-fencing. The PAF—which has expanded the breadth of qualifying items over time—excludes large-scale infrastructure projects, which now seem to be critical to remove binding constraints to growth. Its impact has been to skew expenditures away from such infrastructure. In order to avoid compressing growth priorities, Government should reconsider the appropriate composition of PAF priorities.

The squeeze on infrastructure coupled with rising debt would have reduced Uganda’s long-term fiscal solvency were it not for debt relief from HIPC and MDRI. External borrowing has had a high budget support element, which has helped finance PAF priorities; most significantly in primary education, which yields returns to human capital mainly in the long run. The upshot of necessary sterilization efforts has been that Government has been borrowing and servicing domestic debt without adding to domestic revenue-generating productive assets. In future Government should take account of the concept of fiscal solvency to ensure that the design of fiscal policy explicitly takes account of macroeconomic stability, poverty reduction and long-term economic growth. The new external debt strategy is a welcome step in this direction.

HOW THEN SHOULD UGANDA BUILD A FISCAL STRATEGY FOR GROWTH?

Macroeconomic indicators in Uganda have been stable for some time, suggesting that the aggregate level of public spending in the short-term is about right given Uganda’s available resources. Additional public spending on infrastructure financed through a further widening of the deficit does not seem a prudent option for Uganda. There seems limited scope to scale up highly concessional borrowing in the short-term unless Uganda can improve its IDA allocation by improving its ranking relative to other countries on governance indicators. Grants seem unlikely to increase given commitment levels from Uganda’s existing donors, particularly if Uganda fails to improve the composition of spending and is slow to address increasing governance concerns.

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19 The PAF includes rural water and feeder roads only.
20 Under the CEM the Bank estimated that the import content of paved roads was around 80 percent, whereas for power generation and transmission projects the import content is closer to 90 percent.
In the short-term there is some scope to increase tax revenues through better compliance and collections, but Government should think twice before further raising tax rates to meet revenue targets. Uganda’s tax to GDP ratio, at just over 12 percent of GDP, is among the lowest in the world. This is partly explained by the relatively low level of trade in Uganda (imports plus exports at about 44 percent compared with 77 percent for the rest of Africa), a low working age population (47 percent compared with 53 elsewhere in Africa) and a largely rural and informal economy. However, Government has placed the tax system under increasing pressure by abolishing GTAX, increasing tax concessions and generous exemptions, and by – until 2005 – allowing URA’s revenue administration to deteriorate. This led to an over-reliance on higher tax rates, raising taxes from key growth sectors (like telephony), and from easy to tax sectors (like transport) despite their importance to future growth and poverty reduction. Both the tax base and compliance rates on major taxes remain very low. At 38 percent, the overall compliance rate of domestic taxes is exceptionally low. Taxes collected on international trade (including VAT on imports) account for over 50 percent of total tax collection, whilst taxes on petroleum alone (excise and imports) account for the same share of revenue as income taxes. By over-taxing trade and under-taxing property relative to equipment, the tax system is economically inefficient and regressive. Revenue exemptions are narrowing the base, making tax system less transparent. The recent discovery of oil provides the possibility that Uganda could generate revenues from the petroleum sector. This is a possibility which should be modeled when more information is available on the likely revenues available. Meanwhile, in the short-term, Uganda should press ahead with the modernization and reform of the URA, in line with the recommendations from IMF technical assistance, but to preserve short-term growth in the economy should resist raising taxes on growth enhancing sectors purely to meet revenue targets.

The balance of fiscal effort in the short to medium-term needs to be on increasing expenditure efficiency, where progress in Uganda has been markedly slow. One important aspect of this is - as set out above in the discussion of budget composition – is to improve the allocation of resources across sectors and within sectors in line with the priorities for growth and poverty reduction. Another important aspect is to improve the efficiency with which inputs are used by budget holders in the public sector to achieve their program outputs, irrespective of whether more of these outputs need to be produced relative to others to address the binding constraints to growth and poverty reduction. Evidence from various tracking surveys, staff absenteeism studies, payroll cleaning exercises and from the Auditor General’s reports to Parliament suggest that in Uganda – whereas they have been reduced over time – leakages in public spending are still quite high. In chapter 2 of the main report we present a methodology designed to differentiate leakage in public expenditure - which we call “waste” - from the efficiency of use of the tangible inputs which public spending purchases.

Evidence from analysis of the Education sector – where as much as 20 percent of primary recurrent expenditures may be being wasted – suggests that Uganda could greatly improve expenditure efficiency across all sectors by reducing leakage. Identifying and reducing waste should be an important element in Uganda’s fiscal strategy for creating room for additional infrastructure. In chapter 3 of volume II we applied the methodology set out in chapter 2 to the largest share (primary recurrent) of expenditure in the largest sector (education), as part of the Ministry of Education’s sector wide efficiency study. Waste was found to be significant, and teacher absenteeism was found to be the principal cause of waste, accounting for over 80 percent (see table 1). The detailed policy recommendations for dealing with teacher absenteeism are set

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22 Uganda was a pioneer country in developing public expenditure tracking surveys (PETS) and reducing leakage in response to these, however as more countries have now begun undertaking PETS, Uganda’s results have been found to be amongst the worst.
out in Ministry of Education’s sector wide efficiency study. The point of presenting the methodology and results here is that other sectors are likely to reveal higher levels of waste. The Ministry of Finance should set in train a program to assess the level of waste across vote holders, and should monitor targets for reducing waste in annual sector Budget Framework Papers. Scrutiny of the Education Sector Budget Framework Paper revealed that the Ministry is tracking neither the unit costs of enrolling a child in school, nor the unit costs for each child who completes primary grade 7, nor the costs per child who attains prescribed standards of literacy and numeracy. The Ministry of Finance should insist that sectors measure and report on unit costs of their main outputs in their annual Budget Framework Papers.

Table 1. Details of Waste Calculations (2005/06 Data)

<table>
<thead>
<tr>
<th></th>
<th>UPE capitation grant</th>
<th>Other non-wage recurrent</th>
<th>Total recurrent</th>
<th>Total waste</th>
<th>% waste</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government releases</td>
<td>276</td>
<td>33</td>
<td>24</td>
<td>333</td>
<td></td>
</tr>
<tr>
<td>Total waste</td>
<td>63</td>
<td>5</td>
<td>1</td>
<td>70</td>
<td>21%</td>
</tr>
<tr>
<td>of which: Ghost teachers</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>of which: Teacher absenteeism</td>
<td>52</td>
<td></td>
<td></td>
<td></td>
<td>19%</td>
</tr>
<tr>
<td>of which: Questionable expenditure</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td>of which: UPE capitation grant leakages</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td>16%</td>
</tr>
</tbody>
</table>

Government spending, excl. waste 213 28 23 263

1/ Implied waste out of total recurrent (i.e. 70/333)
Source: World Bank estimates

For Uganda there are sound economic arguments for a medium-term fiscal strategy which emphasizes a compositional shift in spending towards infrastructure, financed by efficiency savings, and failing this, financed a slower pace of fiscal consolidation. This rationale must not distract Government from the very obvious short-term priority of raising the buoyancy of tax revenue by improving tax administration at URA, increasing compliance, and broadening the tax base. Nor should the path to creating “fiscal space” for infrastructure detract from the urgent priority to increase the efficiency of infrastructure projects. The rationale is that from a macro perspective, if Government infrastructure spending is to increase in the absence of a reduction of Government consumption or a widening of the balance of payments (eg through aid absorption), or in the absence of productivity gains (which may themselves be contingent on more public infrastructure), then either private investment or private consumption needs to decrease. In the longer-term if Uganda turns down aid to finance increased infrastructure spending for growth from higher taxes without attaining improvements in public expenditure efficiency or productivity gains in the economy, and chooses to raise these taxes from productive activities and direct taxes, the upshot would be sub-optimal for growth (in chapter one we report findings on this from a CGE modeling exercise).

Should medium-term revenue and efficiency efforts yield lower than expected results, and should aid flows prove to be reliable, Government may want to reconsider the pace at which it tries to wean itself off aid. Nor should Government postpone high return infrastructure projects if these yield high returns. Some fundamental structural factors will take time to resolve, making aid and concessional borrowing important sources of finance for Uganda’s public...
infrastructure needs into the longer term. For example, Uganda has the 3rd fastest growing population in the world, the world’s most youthful population\(^{23}\), the highest dependency ratio in the world, and currently has a low urban population and a very high level of informality in business (80%). These factors increase the fixed costs of service delivery and make revenue collection more difficult. Analysis in chapter 5 suggests Uganda is unlikely to raise sufficient foreign direct investment to finance scaled up infrastructure, whilst analysis in chapter 6 identifies factors which may make it difficult for the revenue share of GDP to exceed 16 percent of GDP by 2011\(^{24}\). These findings imply that if Uganda is to achieve its ambitious and laudable plans in social and infrastructure sectors, reliance on aid for a long time is most likely inevitable. Attitudes towards aid in Uganda may need to improve, as should the delivery of aid by donors\(^{25}\).

Should Uganda benefit from “windfall” aid in the short-term, there may still be some limited scope for additional infrastructure spending with minimal sterilization requirements if Government used it to finance high import-content infrastructure. However grant aid has declined in recent years and Government continues to be concerned over the predictability and “quality” of the aid Uganda is receiving. Such a strategy would only be unquestionably growth-enhancing if such projects were high in their import content, were well chosen, implemented at a fair price, and completed on time and at cost, so that productivity benefits for the domestic economy are captured early to offset possible Dutch disease effects.

**RECOMMENDATIONS FOR A GROWTH ORIENTED FISCAL POLICY**

**Strategic Recommendations:** The Government’s fiscal strategy mapped out in chapter 8 of the PEAP should be realigned with the following priorities.

1. **First, Government needs to drastically reduce the share of total spending on employee costs,** especially in Agencies and Ministries which are not delivering front-line services in education, health, infrastructure and agriculture. A renewed wave of public service reforms is overdue to reduce civil and public service numbers, which have crept back to levels of the past. Pensions reform is needed to avoid a serious financial burden in the longer-term. The increase in the number of local Government districts by 20 in two years – without additional local revenue – has widened the deficit by approximately $45 million per year. Agency spending has been rising in recent years, but little visible action has been undertaken to tackle duplication of functions or achieve better performance from Agencies.

2. **Second Government needs to set in train systematic programs to reduce waste.** Despite the use of instruments to assess and counter leakages, our analysis of the sum total of studies already conducted for the education sector suggests that fiscal leakages, or “waste” in public spending remain very significant in Uganda, even in priority PAF sectors. Absenteeism rates are very high amongst health workers\(^{26}\), and are still too high (around 20 percent) amongst teachers. We estimate that teacher absenteeism, capitation grant leakage, ghost teachers and “questionable expenditures could be wasting up to a fifth of recurrent spending in primary education. MOFPED’s aim initially should be to

\(^{23}\) 53% of the population is … 15 years old.

\(^{24}\) This is the target in URA’s corporate plan.

\(^{25}\) Aid to Uganda is unpredictable and fragmented. Aid for infrastructure often requires counterpart funding which is sometimes not available in the budget.

\(^{26}\) Chaudhury, Krener et al estimated 37% absenteeism
use the approach outlined here for assessing waste, to encourage and reward successful programs launched in sectors like Education which are already seeking to identify problems and to deal with them. MOFPED should start by assessing baseline measures of waste using the methodology in chapter 3, and should set targets for reducing waste in sector BFPs. A starting point for reducing absenteeism should be to evaluate the efficiency of existing programs (pay rises, tender housing, inspection). In our methodology we look only at recurrent spending in education. Improved procurement processes could reduce the unit costs of capital projects, while better maintenance of public assets would prevent premature depreciation.

3. Third, Government needs to roll out an initiative to achieve better public spending efficiency. Reducing waste is one significant element of improving efficiency. In addition efficiency gains may come from better choice of technology (combination of inputs to produce outputs)\(^\text{27}\), better organization of public provision (avoiding duplication between Agencies and Ministries, contracting out), and better selection of programs (program efficacy). Program efficacy cannot be dealt with through an annual cycle of public expenditure reviews. Comprehensive applied research and periodic program evaluation is needed to assess returns to alternative programs and delivery channels in priority sectors. In the annual Public Expenditure Review context, the burden of proof on efficiency needs to shift – line Ministries should be responsible for showing how they have measured, monitored, and improved efficiency\(^\text{28}\). In annual sector budget framework papers MOFPED should start by seeking better definitions of program objectives, clearer indicators of input and output efficiency, and how these will be measured. MOFPED and Bank of Uganda should also enter into this efficiency initiative. Chapter 3 demonstrates how this was done for the education sector. Although we look at existing spending in primary education, sizeable efficiency savings in secondary school teacher deployment as well as appropriate phasing, are needed to make the UPPET program financially feasible.

4. Fourth, the contestability function of the Budget needs to be strengthened. The starting point for this would be for MOFPED to develop an analytical instrument - such as the fiscal sustainability tool created for this study - to illustrate the financing implications and fiscal and growth trade-offs of new programs and initiatives. For example, our simulations in chapter 4 suggest that at unchanged utilization rates of teachers and classrooms, the education sector will require an increase in spending from 4.5 to 7 percent of GDP to deliver targets for UPE and USE\(^\text{29}\). This increase would be more than twice the required net increase in infrastructure stocks needed to support more rapid growth. By contrast we show that a combination of policy and efficiency measures could adequately generate sufficient fiscal savings for the required infrastructure spending.

\(^{27}\) An example from chapter 3 on education is "double shifting" (box 3.5).

\(^{28}\) Presently sector budget framework papers contain an array of data on programs and inputs, and the reader (MOFPED and donors in SWGs) are left to figure out whether spending is achieving additional results at lower cost. Instead Ministries should be required to specify their definitions of efficiency, how they will measure it, what they will monitor over time, and through what means of verification. Annual sector efficiency studies such as the one in chapter 3 could be institutionalized as part of the PER.

\(^{29}\) This is broadly in line with Lewin (2006), "Financing Universal Post-Primary Education (UPPET) in Uganda, a study of secondary school efficiency carried out by the Ministry of Education."
5. Fifth, Government needs to prioritize a list of high return, high import content infrastructure projects for inclusion in the Budget, and set up efficient implementation arrangements. Paved road projects and electricity projects have tended to have import content higher than 80 percent and could fit the description. Priority roads include the Soroti-Dokolo and Kampala-Gayaza-Zirobwe road rehabilitation, upgrading and construction projects, followed by rehabilitation of Busega-Mityana and Dokolo-Lira roads. In addition, in the energy sector high-import content priorities include the petroleum pipeline extension from Eldoret and the Karuma hydro project, along with mini hydro schemes. As noted above, implementation in these and other infrastructure sectors would need to improve over current practice.

Specific Proposals: Ministry of Finance Macro and Budget Division staff may wish to use the fiscal sustainability tool prepared by the Bank for chapter 4 to investigate other options to generate "fiscal space" for infrastructure. Some illustrative measures which would generate sufficient infrastructure spending for growth are outlined in the "high growth" scenario presented in chapter 4 and shown below in figures 6-8 below are as follows:

1. Reduce the growth rate of real wages to civil servants to $\frac{1}{2}$ of annual real GDP; ie if real GDP was growing by 6 percent, real wages would grow by 3 percent\(^{30}\).

2. Slow down the growth rate in civil servant numbers by 2 percentage points from trend growth, except in education.

3. Reduce pension expenditure to 9 percent of the wage bill compared to 12 percent in the baseline.

4. Reduce the unit costs of constructing fully furnished classrooms at acceptable quality by 15 percent.

5. Expand double shifting in both primary and secondary schools.

6. Reduce the number of core courses taught in secondary schools to 10.

Without changes in fiscal strategy the composition of the Budget will likely deteriorate further, and future per capita growth in Uganda will slow down. There is no immediate crisis looming, nor would one necessarily even arise given the authorities' exemplary track record of fiscal discipline. More likely in the face of future fiscal pressure, service quality will fall, infrastructure constraints will further bind, growth and poverty reduction will slow down, and reliance on external aid will increase. Figures 4 and 5 above present the simulated outturns from the base case "do nothing" scenario.

\(^{30}\) With 5 percent annual inflation, nominal wages would still increase by 9 percent. But even this rate of growth would be a significant decline in growth compared with the past 8 years.
Figure 6. Growth Scenario Forecast of Composition of Expenditure, Functional Perspective

Figure 7. Growth Scenario Forecast of Composition of Expenditure, Economic Perspective

Source: World Bank staff's growth scenario forecast
A compositional shift in spending will require deep public sector reforms, early action on postponed reforms to public administration, and a working program to reduce waste and increase the efficiency of public expenditures, including in PAF priority sectors.

A reduction in waste and an increase in public sector efficiency will ultimately require more accountability for the delivery of quality public services than is evident in Uganda today. In Uganda this has been labeled as "the need for a strong commitment to deliver outcomes". It will also require a much more systematic effort by spending Ministries and Agencies, and a more structured and a much more strategic approach from the Ministry of Finance than set out in the PEAP and practiced in budget framework papers to date. The Ministry of Finance’s initiative to reclassify sector budget presentations may help, but requires better data on actual expenditures than presently exists.

Success in achieving better efficiency in sector spending depends ultimately on achieving increased accountability. By piloting the public expenditure tracking survey tool in education, Uganda was once in the lead amongst countries in its efforts to eliminate waste in public spending. Regrettably, this is no longer the case. Complacency seems to have set in. There has been little progress in recent years, and relative to its scores on macro and structural reforms, Uganda now stands out as lagging behind other countries in Africa in its progress in both the
quality of public administration and for transparency, accountability and corruption in the public sector\textsuperscript{31}.

**Stronger accountability is needed both within the public sector and to community groups and service users.** Transparency of information on inputs and outputs through the public expenditure review process could help to increase transparency over input costs and outputs produced, and could increase the demands for change from Parliament, from the Executive, from Ministries and from donors. But identifying problems is just the start in developing solutions. Solutions to inefficiency depend upon the incentives which service providers face at the point of service delivery. Action is needed to build accountability at two levels:

- **Within Government.** In the classic top-down principal-agent setting, information on inefficiency should lead to calls for more accountability up the chain\textsuperscript{32} – from service providers to local Governments, from local Government’s to central Ministries, and from central Ministries to the Ministry of Finance and OPM, then ultimately to the Office of the President and to Parliament. This will only happen if Uganda’s leaders demand it.

- **To community groups and service users.** At the point of service delivery, more attention needs to be given to experimenting with community-based accountability to improve efficiency and reduce leakage. Modern research on service delivery is calling into question preconceived ideas about the effectiveness of the principal-agent model for service delivery. Most analysts of public services now call for impact evaluations to assess whether programs are delivering\textsuperscript{33}. Some promising work has begun in the health sector through a citizens’ report card. Government should also experiment with initiatives to reduce teacher absenteeism\textsuperscript{34}.

\textsuperscript{31} World Bank annual CPIA results show other IDA countries steadily taking over Uganda on these ratings.  
\textsuperscript{33} There are many research examples at the Poverty Action Lab of MIT http://www.povertyactionlab.com/, and many active examples in Uganda  
\textsuperscript{34} See chapter 3 as well as Svensson and Bjorkman (2007).