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UGANDA

PUBLIC EXPENDITURE REVIEW

STRENGTHENING THE EFFECTIVENESS OF THE PUBLIC INVESTMENT PROGRAM IN UGANDA

Poverty Reduction and Economic Management 2
Africa Region

Document of the World Bank

Monetary Equivalents

As of December 15, 2010

Monetary Unit	= Uganda Shillings (Ush)
1.00 dollar US$	= Ush 2287

ABBREVIATIONS AND ACRONYMS

ALD	Aid Liaison Department
APG	Advance Payment Guarantee
CBA	Cost Benefit Analysis
CEM	Country Economic Memorandum
C&B	Cost and Benefit Analysis
DC	Development Committee
DLP	Deficit Liability Period
DUCARIP	District, Urban, and Community Access Roads Investment Plan
FIDIC	International Federation of Consulting Engineers
FY	Fiscal Year
GAAP	Governance and Accountability Action Plan
GDP	Gross Domestic Product
GFSM	Government Financial Statistics Manual
GoU	Government of Uganda
IFMS	Integrated Financial Management Systems
IGF	General of Finances
IGG	Inspector General of Government
IMTC	Inter-ministerial Technical Committee on Roads
KM	Kilometer
KPI	Key Performance Indicators
LIC	Low Income Country
LM	Line Minsitry
M&E	Monitoring and Evaluation
MIS	Monitoring Information System
MoFED	Ministry of Finance and Economic Development
MoFPED	Ministry of Finance, Planning, and Economic Development
MoWT	Ministry of Works and Transport
MTEF	Medium Term Expenditure Framework
MTRA	Multi-Sector Transport Authority
NAADS	National Agricultural Advisory Services
NDP	National Development Plan
NIMES	National Integrated Monitoring and Evaluation Strategy
NRSA	National Road Safety Authority
NPA	National Planning Authority
NTMP	National Transport Master Plan
OAG	Office of Auditor General
OBM	Office of Budget Monitoring
OPM	Office of the Prime Minister
PA	Price Adjustment
PDU	Procurement and Disposal Unit
PEAP	Poverty Eradication Action Plan
PER	Public Expenditure Review
PFM	Public Financial Management
PIM	Public Investment Management
PIP	Public Investment Program
PRSP	Poverty Reduction Strategy Paper
PPDA	Public Procurement and Disposal of Public Assets Authority
R^2	Coefficient of Determination
RAI	Rural Access Index
R&D	Research and Development
RSDP	Road Sector Development Program
SG	Solicitor General
SSA	Sub-Saharan Africa
SMART	Specific, Measurable, Attainable, Realistic, and Timely
SWG	Sector Working Groups
TA	Technical Assistant
TSDP	Transport Sector Development Project
UNHS	Uganda National Household Survey
UNRA	Uganda National Roads Authority
URA	Uganda Revenue Authority
URF	Uganda Road Fund
USD	United States Dollar
VfM	Value for Money
VO	Variations Orders

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Uganda Public Expenditure Review

EXECUTIVE SUMMARY

A. INTRODUCTION

i. **To advance the effectiveness of Uganda's public investment program (PIP) improvements can and should be made from the inception of an investment program all the way through its implementation.** It is not a question of abandoning the current process but one of adjusting the various stages of the current PIP processes in place such that in particular quality at entry and readiness of investment projects improves, contract management gets strengthened, and above all incentives for implementation are enhanced.

ii. **This is particularly relevant given the increases in investment foreseen in the NDP, the increased amounts to be financed through government's own resources, and the anticipated increases in resources due to the anticipated revenues from oil exploration.** All of this will mean that the effectiveness of the investment projects will critically depend on Government's own processes and systems and less on donor driven project appraisal and implementation procedures.

iii. **The aim of the proposed adjustments to the PIP processes in Uganda is to ensure that the PIP can assist the government to direct resources to those investments that provide the highest economic and social return.** The government is advised to revisit the current informational content of the PIP as well as the decision making process of the PIP at each of the phases of the PIP, i.e., preparation, evaluation, and implementation. The remainder of the executive summary will discuss how this can potentially be accomplished.

B. KEY MESSAGES

Re-instating the PIP as a tool to drive development

iv. **A re-evaluation of what type of projects to include in the PIP is needed.** Traditionally, a PIP would include only capital investment related expenditures. Such expenditures, per definition would lead to the creation of a physical asset that required often an expenditure effort over more than one year, but more importantly would result in a public asset that would exist for more than one year. Once the physical asset was created resources needed for operational and maintenance would be classified as re-current expenditures and not part of the PIP.

v. **The current PIP is a mix of programs that are building accountable and transparent institutions, provide services to enhance (agricultural) growth, and build physical assets e.g., in the road and energy sectors**. Hence, the PIP has moved well beyond the traditional role of directing resources to build physical assets, to the desire to be an instrument that directs resources to priority Government interventions that enhance growth and reduce poverty.

vi. **Consequently, Public Investment Management (PIM) processes, originally designed to facilitate investment in physical assets, are not adequate to ensure value for money.** A revision of PIM processes and procedures such that these procedures explicitly recognize this mixture of projects and programs in Uganda's PIP is needed. Currently, the investment component of the PIP is well below 50 percent and the resources flowing to programs dealing with the functioning of the public sector in a transparent and accountable manner are well above 20 percent of total PIP expenditures. These are mostly of a technical assistance nature. It is also important to ensure that those projects that are not of a temporary nature are reclassified as recurrent programs, e.g. National Agricultural Advisory Services (NAADS).

Project Bank and the PIP

vii. **The PIP is focussed on affordability of the included projects.** Currently, projects are only included in the PIP when the programs fit within the MTEF ceiling and the annual budget for the immediate year under consideration. On the one hand, this characteristic is a strength of the PIP as it does not consider programs for which no resources are available. On the other hand, it also means that there is no inventory of projects that could be implemented if additional resources would become available. This is a major shortcoming as the process for project preparation is often a time consuming process.

viii. **The expansion of the PIM process to include a so-called project bank with priority and almost ready to be implemented projects can greatly improve the effectiveness of the PIP.** Many countries have institutionalized a project bank in which projects that are expected to be beneficial to a country's development are entered in and which will be included in the PIP when resources are available. This will improve the readiness of projects and as such reduce the time between the decision to include or move forward with a project and the time that it is to show results on the ground.

ix. **Projects that are included in the PIP are almost always void of any pre-appraisal and/or feasibility analysis.** This has reduced the effectiveness of the budget. A clear example of this shortcoming was the fact that the increases in the roads budget of FY07/08 took almost three years before these projects resulted in actual building of roads as the preparation, planning, and design phase takes close to three years with the actual building of roads taking another three years. It would be beneficial if a certain percentage of projects that are included in the proposed project bank would undergo feasibility and/or pre appraisal analysis.

x. **A designated fund could be usefully set up that would allow a number of priority projects to undergo feasibility and/or pre-appraisal studies while awaiting**

inclusion in the PIP and thus the Budget. This could significantly improve the readiness of PIP projects. The management of such a fund could be assigned to the development committee. In addition, it will be important to harmonize the project analysis done with those of the donors to ensure that no duplication of the feasibility and/or pre-appraisal is needed. The Development Committee could usefully take the lead in such an exercise.

Coordination between NPA and Development Committee

xi. **Strong strategic direction is provided by the new National Development Plan.** It will be important to strengthen the collaboration between the NPA and the Development Committee. A first important step could be to have the NPA join the Development Committee and task the NPA with ensuring that all proposed programs are in line with the NDP itself and with sectoral strategies. At the same time the MoFPED could ensure that the costing of the priority project included in the NDP are as accurate as possible and have undergone appropriate cost-benefit analysis.

Quality of PIP proposals

xii. **Strong participatory approach through sector working groups and links with sector strategies has not led to PIP project proposals of an adequate and even quality.** In general the PIP proposals submitted to the DC are of an uneven quality and hardly any include cost-benefit analysis. Clearer guidance to sector working groups and their stakeholders in particular line ministries is necessary to improve the quality of submitted proposals. The current guidelines could usefully include a profile worksheet that each project proposal would need to fill in and require a different process for different project sizes, say small, large and mega, and type, say of an investment or technical assistance nature.

xiii. **A phased approach for improving the quality at entry might be necessary given the current level of capacity with line ministries and its agencies.** At the moment a significant number of projects get prepared by donors. However, this can be expected to decline as domestic resources are financing an ever increasing part of the PIP. In addition, many line ministries outsource the preparation and sometimes even the evaluation of those projects to consultants. It is important to re-build this capacity, not only for government agencies but also under the consultants currently used to prepare and/or evaluate project proposals. This clearly will require time and a revision of the current guidance provided to teams preparing projects.

Implementation arrangements

xiv. **Once a project is selected for inclusion in the PIP, it is by and large left on its own.** As the programs and projects of the PIP are critical for Uganda’s development it is important to pay close attention to its implementation arrangements as well. Elements that could help strengthen implementation are a close physical monitoring of the projects implementation through field visits as well as, say, quarterly implementation reports that are discussed by the DC and forwarded to Cabinet, ensure that the DC gets informed about any changes to the design after the contract has been awarded, and establish personal accountability of project managers for delays.

xv. **The procurement plan and contract management are often an afterthought even though the realism of the former and the manner in which the latter deals with delays and price adjustment, is critical for timely and within budget implementation**. In particular the experience with the roads sector shows that active management of procurement and special attention to contract management within the responsible institution is a must to implement a project on time and without cost escalations. Consequently, the Development Committee should not approve a project for inclusion in the PIP if it does spell out a detailed procurement plan that include a specific time path and assigns the management of the contractor explicitly to a unit within the responsible agency for implementation.

Role of the Development Committee

xvi. **The Development Committee (DC) with its expanded membership of the NPA should drive the reform agenda to increase the effectiveness of the PIP.** Most if not all reforms proposed here require an active and strong involvement of the DC. The DC should drive the need for better information when project proposals are submitted, the DC should be the main gatekeeper for project proposals to make it into the proposed project bank and later into the annual budget, the DC should take the lead in monitoring implementation and decide on when projects that are not performing or have outlived their usefulness to the country are eliminated from the PIP.

xvii. **This is a full agenda but with a re-energised Development Committee this can be done and lead to an increased effectiveness and relevance of the PIP**.

PROLOGUE

1. In recent years the Government of Uganda (GoU) has shifted the priorities in its national development strategy. There was accumulating evidence that infrastructure deficiencies were binding constraints to economic growth, in particular deficiencies in the transport and energy sectors[1]. If bottlenecks in infrastructure were not removed the rate of economic growth could slow down in the next few years which would also impact on the progress in poverty reduction. The National Development Plan adopted in early 2010 by Cabinet sets out an ambitious strategy for Uganda for the period 2010/11 -2014/15 with an aim to facilitate and contribute to the transformation of Uganda's economy from a peasant to a modern and prosperous country within 30 years. Significant increases in public investment are foreseen to support this transformation.

2. It is imperative to have an effective Public Investment Management (PIM) system in place to maximize value for money of these proposed public investments. However, these expenditure trends have so far not been matched by efforts to improve Uganda's PIM. PIM theories call for a stage-wise reconsideration of the entire investment project cycle and at the same time an overhaul of the related institutional changes, and Uganda is again no exception.

3. The government considers it imperative to enhance the quality and efficiency of Uganda's PIM system. One way is to move away from administrative compliance towards performance management of public investment, in conjunction with improving the preparation and economic rationale of proposed projects. In the literature on capital budgeting and project evaluation, a growing consensus is consolidating around the necessity to "put the management in charge" to render as flexible as possible the project response to the unforeseen changes in the environment, in a world where uncertainty and irreversibility dominate[2].

4. To assist the Government in this endeavor, this PER therefore, analyses the effectiveness of the current Public Investment Management processes by taking a close look at the functioning of Uganda's current Public Investment Program.

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[1] See World Bank (2007), Reinikka and Svenson (1999) for Uganda related evidence and Calderon (2007) for a more regional wide analysis of the link between infrastructure and growth.
[2] Scandizzo and Napodano, 2009.

1. THE MACROECONOMIC CONTEXT OF UGANDA'S PUBLIC INVESTMENT PROGRAM

A. INTRODUCTION

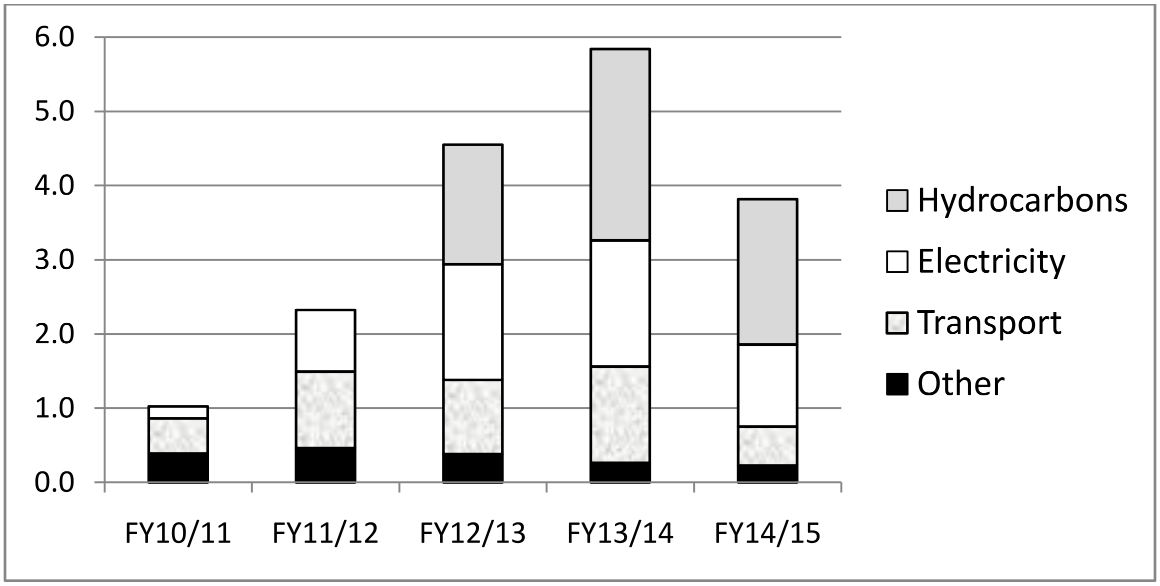
1.1 **Uganda's economy has grown rapidly over the past 20 years propelled by consistent policy reforms.** Annual growth in real GDP has averaged 7.4 percent over the 10 years ending in 2009/10, compared with 6.5 percent recorded in the 1990s. This acceleration was in spite of consecutive exogenous shocks including: the oil price shock; drought conditions with adverse effects on energy generation and agricultural production; and volatile food prices.

1.2 **Among others, the GOU has long pursued prudent fiscal policies and pioneered and achieved major reforms aimed at enhancing public financial management, particularly within budget formulation and execution.** These reforms have resulted in a stable fiscal position, expeditious and more transparent financial recording and reporting. A modern and comprehensive financial legislation and regulatory framework has laid the ground for improved planning and budgeting coordination.

1.3 **The central authorities recognize that despite nearly two decades of rapid growth and stable economic and political conditions Uganda still faces important challenges to accelerate structural transformation.** These challenges include addressing sizable infrastructure constraints, high population growth, regional disparities, and weaknesses in governance and service delivery. To respond to these challenges, the Government of Uganda (GoU) has adopted a National Development Plan (NDP), an integrated and strategically crafted plan, to transform and diversify its economy. The government has not had a clear strategic plan since 2008, when the Poverty Eradication Action Plan (PEAP) expired. While the government for some time has invested in upgrading the country's ailing infrastructure, its new NDP will facilitate the required additional measures to generate a greater impact on poverty eradication and prepare the economy for the transition ahead.

1.4 **Major infrastructure projects have been prioritized in the NDP thus bringing GoU financing requirements to an unprecedented record highest.** The Government has developed strategic sector plans and agreed on key priority projects that are to lead to further economic growth and poverty reduction during 2011-2015 and are to put Uganda on a solid ground to becoming a medium-income country within fifteen years, as noted in the national plan. According to NDP, funding of new projects alone are estimated to escalate from US$142 million (0.9 percent of GDP) in year 1 to US$769 million (3.7 percent of GDP) in year 3 to US$1,016 million (4.2 percent in GDP) in year 5 (see figure 1). Central authorities estimate that a total in the amount of US$3,291 million would need to be raised, whether in the form of counterpart funding or external grants and loans, or all combined, with an additional US$3,155 million to be drawn from private investors[3].

Figure 1.1: Planned New Investment Projects, FY10/11-FY14/15 (% of GDP)



Source: National Development Plan [2010/11-2014/15], IMF data, and World Bank staff calculations

1.5 **The capital expenditure plan of the NDP has led to surmounting concerns within the GOU as to the ability to address the various challenges confronting PIM, including those relating to low absorption capacities and fiduciary fraud and malpractice.** In general, the Government has been able to design clear-cut sector-wide strategies and action plans for the majority of priority sectors such as transport and agriculture. Expenditures are in general aligned to policy objectives and strategic goals thus resulting in a well-founded MTEF framework[4]. The challenge arises; however, with respect to the suitability of the organizational structures and processes, the technical capabilities and the civil service to ensure that those strategic plans and projects are prioritized across sectors as well as within the sector and implemented according to a prescribed schedule and standards of quality by the various executing agencies and units.

B. RECENT ECONOMIC AND FISCAL DEVELOPMENTS

1.6 **The global economic crisis decelerated GDP growth but Uganda's medium-term growth prospects remain solid.** As growth in demand for Uganda's traditional exports slowed, liquidity conditions tightened, and real activity mainly in the construction sector declined, GDP growth fell to 5.8 percent in 2009/10, impressive by world standards, but falling short of projected performance. Private investment in 2009/10 amounted to 23 percent of GDP, one percentage point below the same level recorded in

[3] This excludes the completion of the Bujagali HP Project and other minor capital projects.
[4] See Bevan (2001) for a discussion of Uganda's early MTEF experience and Kutesa et al (2010) for a more recent discussion.

2008/09. Traditional and non-traditional exports remained though at 22 percent percent of GDP respectively through 2009/10, but foreign direct investment was low at about 4 percent of GDP in 2009/10 (compared to peak levels 11.8 percent of GDP in 2007/08), and other short-term foreign inflows declined. The USh/US$ exchange rate, which depreciated by over 17 percent in 2008/09, is projected to have depreciated by 4.6 percent in 2009/10. However, GDP growth is expected to recover in 2010/11 averaging about 7 percent in the next few years on a base of strong services growth, regional trade and agricultural exports.

1.7 **Oil production will change Uganda's economic outlook, although it is too early for detailed macro projections.** With confirmed oil reserves of 800 million barrels and potential reserves of up to 2 billion barrels, Uganda will be significantly affected by oil but not totally dependent on oil revenues and in that regard in the company of countries such as Azerbaijan and Sudan as opposed to classic petro-states such as Angola and Nigeria. Full-scale production, which is not likely before 2016, could reach 150,000 barrels per day, a rate that could be sustained for 10-20 years. Based on the current fiscal system and an oil price of $75 per barrel, government revenue at peak production is estimated at over $2 billion per year. Large investments will be needed though to produce, transport, export and refine the oil. Even though there remains uncertainty regarding the time at which Uganda will reach its peak oil production and income, the government is preparing the institutional environment for oil production and revenue management. Nevertheless, much remains to be done to bring opportunities from oil and avoid the resource curse.

1.8 **Going forward, oil revenues will provide an impetus for additional fiscal space required to address a prudent fiscal policy for growth, however, only if the challenges faced in public investment management (PIM) are addressed.** Absorptive capacity[5] challenges have consistently constrained GoU commitment to address infrastructure deficits in the roads and energy sectors, even with additional resources allocated to infrastructure budgets. This will require addressing in preparation for additional the fiscal space.

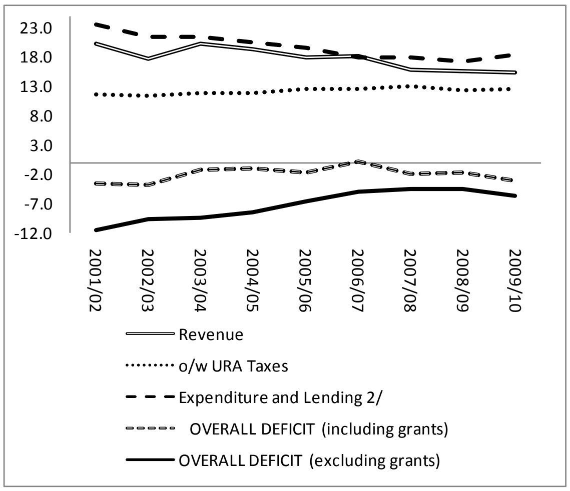
1.9 **The growth of the economy has been supported by prudent fiscal discipline, as GoU over the last five years has embarked on fiscal consolidation**. The overall balance including grants has on average been kept below 3 percent of GDP since FY2002/03 (Figure 1.2). In addition, the overall balance excluding grants has declined from 12 percent of GDP in FY2001/02 to around 5 percent since FY2006/07. This fiscal consolidation has been attained at the expense of contracting public expenditures which as a share of GDP have tightened from a peak 23.5 percent in FY2001/02 to a low of 17.2 percent in FY2008/09. However, due to the need to address infrastructure deficits, public expenditures have risen to 18.4 percent in FY2009/10 and are projected to remain above 18 percent over the medium term. Tax revenue on the other hand as a share of GDP improved slightly from 11.5 percent in FY2001/02 to 12.5 percent in FY2009/10 and is

[5] See previous PER: Strengthening the impact of the roads budget, report number 55672-UG.

projected to increase to 13.2 percent in FY2010/11. However, this is well below the sub-Saharan Africa average of above 18 percent and significantly below Tanzania and Kenya with 15.3 and 18.7 respectively in FY09/10.

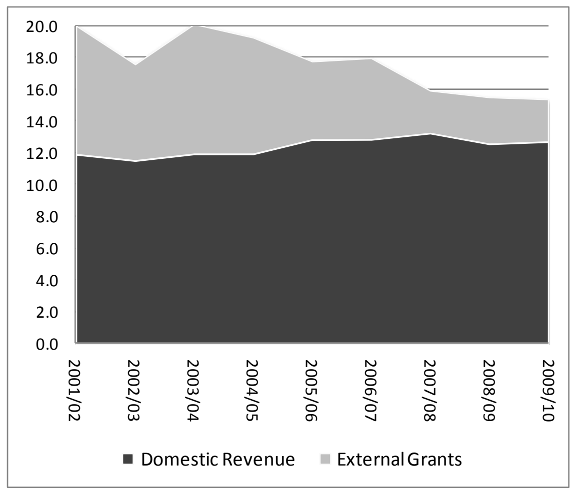
1.10 **Foreign aid grants to support public expenditures are declining**. As a percentage of GDP, revenue including grants has declined from 20 percent in FY2003/04 to 15.4 percent in FY2009/10. While domestic revenue which includes URA taxes and non tax revenue has modestly improved in percent of GDP from 11.5 percent in FY2003/04 to 12.7 percent in FY2009/10, foreign aid grants which include budget and project support have declined from a peak of 8.2 percent of GDP in FY2003/04 to 2.7 percent of GDP in FY2009/10 (See Figure 1.3).

Figure 1.2: Fiscal Developments, 2001/02-2009/10 (% of GDP)



Sources: MFPED and World Bank staff calculation

Figure 1.3: Revenue Developments, 2001/02-2009/10 (% of GDP)

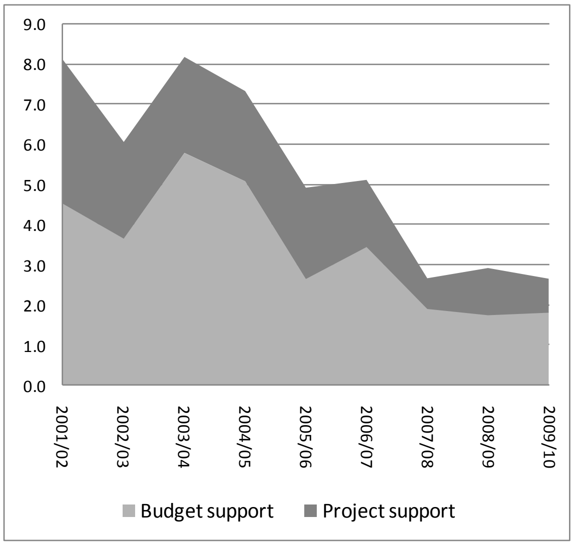


Sources: MFPED and World Bank staff calculations

1.11 **Both budget and project support grants have been on a decline** (Figure 1.4). While budget support peaked at 5.8 percent of GDP in 2003/04 it has reduced to a current low of 1.8 percent of GDP. Project support shows a similar trend; however, with the exception of FY2007/08 the decline in project support has been smoother compared to budget support. With the shrinking external revenue potential and the need to maintain a prudent fiscal policy, additional fiscal space must come from efficiency gains of doing more with less and from an effort to increase domestic tax revenues.

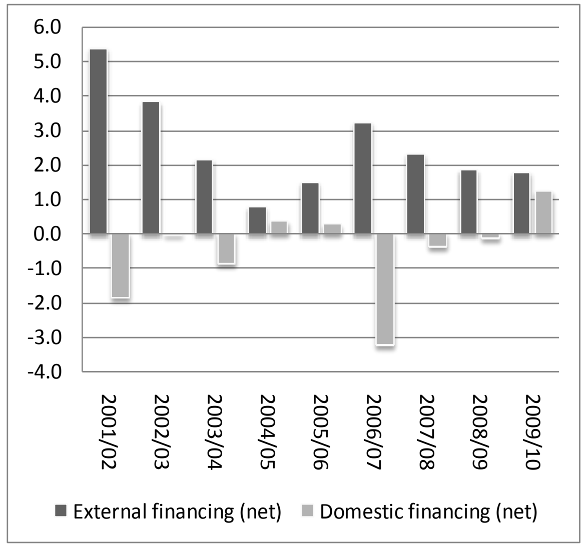
1.12 **External borrowing has been the main source of deficit financing over the last decade.** More recently, i.e., FY2009/10 domestic borrowing contributed significant to the financing of the deficit and is projected to continue to do so in the medium term. External borrowing (net) was highest in FY2001/02 at 5.4 percent of GDP, however, external borrowing declined over the decade and in FY2009/10 stood at 1.8 percent of GDP. On the other hand domestic borrowing registered overall net savings with FY2006/07 registering the highest net savings at 3.3 percent of GDP over the decade, however, the trend has shifted to borrowing in FY2009/10 at 1.2 percent of GDP.

Figure 1.4: External budgetary grants, 2001/02-2009/10 (% of GDP)



Sources: Ugandan Authorities; IMF, and World Bank staff calculations

Figure 1.5: Financing mix of government borrowing, 2001/02-2009/10 (% of GDP)

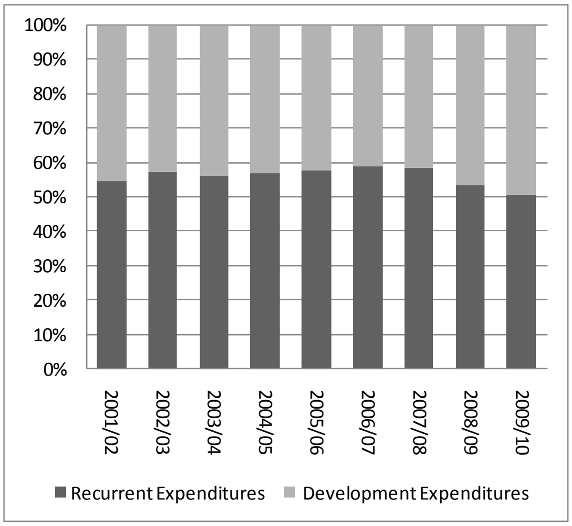


Sources: Ugandan Authorities; IMF, and World Bank staff calculations

1.13 **Capital budget as a proportion of total public expenditures is on a rising trend at the expense of recurrent expenditures** (Figure 1.6). Development expenditure as a share of the budget has risen from 39.4 percent in FY2006/07 to about 49 percent in FY2009/10. On the contrary recurrent expenditure share has declined from 57 percent to about 51 percent over the same period. This trend is consistent with government's commitment to increase the fiscal space for infrastructure and growth.

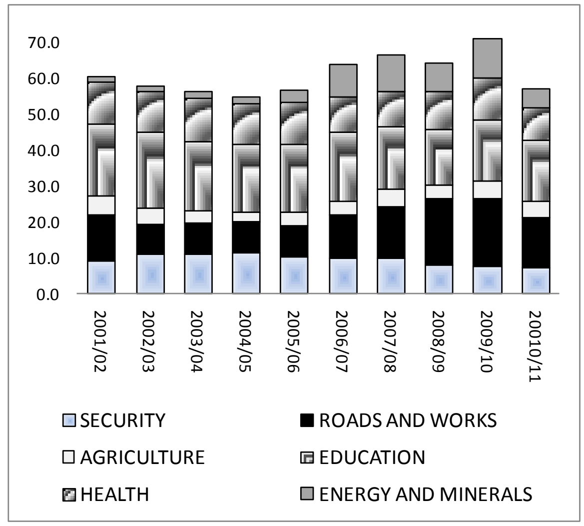
1.14 **In recent years, roads and energy sectors have emerged as priority sectors in the Government budget** (Figure 1.6). With the exception of the current FY2010/11 where the allocation to roads and energy sectors as a percentage of total budget declined, since FY2005/06 shares to both roads and energy sectors have been on a rising trend and are now rivaling shares of social sectors i.e. education and health. The share of total budget to roads sector has risen from 8 percent in FY2005/06 to 19 percent in FY2009/10, while the share to energy sector has risen from 1.5 percent in FY2004/05 to about 11 percent in FY2009/10. However, due to absorption capacity challenges within the capital budget of the roads and energy sectors, FY2010/11 allocations as a proportion of the total budget have been reduced, but are still above the pre-FY2005/06 levels.

Figure 1.6: Recurrent versus development expenditures, 2001/02-2009/10 (% of total expenditures);



Sources: MTEF data, MoFPED

Figure 1.7: Sector share in total expenditures, 2001/02-2009/10 (% of total expenditures)



Sources: MTEF data, MoFPED

Table 1.1: Public Expenditures by Sector (2000/01-2010/11, % of total expenditures and % of GDP))

as % of Total Budget	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Agriculture	5.0	4.3	3.3	2.7	4.0	3.9	4.6	3.8	4.9	4.5
Tourism, Trade & Industry	1.3	1.5	0.7	0.6	1.1	1.2	1.0	0.5	0.8	0.7
Energy & Minerals	1.3	1.5	2.0	1.5	3.5	9.0	10.3	7.9	11.0	5.3
Transport & Works (incl. roads)	13.0	8.4	8.6	8.8	8.4	12.2	14.3	18.5	19.1	14.2
Information & Communication Technology	-	-	-	-	-	0.0	0.1	0.1	0.1	0.2
Lands, Housing & Urban Development	-	-	-	-	0.3	0.5	0.2	0.2	0.3	0.3
Education	19.9	21.1	19.3	18.9	18.8	18.9	17.6	15.4	17.0	17.0
Health	12.0	11.6	12.0	11.4	11.7	10.0	9.8	10.7	11.6	9.0
Water & Environment	4.0	3.4	2.7	2.6	2.3	3.2	3.6	2.6	2.7	3.4
Social Development	0.6	0.7	0.5	0.5	0.4	0.4	0.6	0.4	0.5	0.4
Justice, Law, and order	5.3	6.3	6.9	5.8	5.6	5.4	5.4	4.8	5.7	7.3
Accountability	6.8	8.7	10.2	6.0	9.5	7.2	7.7	7.1	7.3	6.6
Public Sector Management	5.2	5.5	5.3	5.5	7.1	6.8	11.1	9.1	11.1	11.4
Public Administration	5.4	4.2	3.8	4.5	5.3	4.6	4.0	2.3	3.4	4.1
Legislature	1.6	1.3	1.3	0.2	0.2	1.4	1.8	1.9	1.9	1.8
Security	9.3	11.2	11.3	11.4	10.5	9.9	10.1	8.1	7.7	7.3
as % of GDP	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Agriculture	1.2	0.9	0.7	0.6	0.8	0.7	0.8	0.7	0.9	0.9
Tourism, Trade & Industry	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Energy & Minerals	0.3	0.3	0.4	0.3	0.7	1.6	1.8	1.5	2.0	1.0
Roads & Works	3.1	1.8	1.8	1.8	1.6	2.2	2.6	3.6	3.5	2.7
Information & Communication Technology	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0
Lands, Housing & Urban Development	-	-	-	-	0.1	0.1	0.0	0.0	0.1	0.1
Education	4.7	4.5	4.1	3.9	3.7	3.4	3.1	3.0	3.1	3.3
Health	2.8	2.5	2.6	2.3	2.3	1.8	1.7	2.1	2.1	1.7
Water & Environment	0.9	0.7	0.6	0.5	0.5	0.6	0.6	0.5	0.5	0.7
Social Development	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Justice, Law, and order	1.2	1.3	1.5	1.2	1.1	1.0	1.0	0.9	1.0	1.4
Accountability	1.6	1.9	2.2	1.2	1.9	1.3	1.4	1.4	1.3	1.3
Public Sector Management	1.2	1.2	1.1	1.1	1.4	1.2	2.0	1.8	2.0	2.2
Public Administration	1.3	0.9	0.8	0.9	1.0	0.8	0.7	0.5	0.6	0.8
Legislature	0.4	0.3	0.3	0.0	0.0	0.3	0.3	0.4	0.4	0.3
Security	2.2	2.4	2.4	2.3	2.1	1.8	1.8	1.6	1.4	1.4

Source: MoFPED

2. THE CURRENT STATUS AND ROLE OF THE PUBLIC INVESTMENT PROGRAM IN UGANDA

A. INTRODUCTION

2.1 **Spending through the PIP in Uganda has been substantial over the past decade and will grow even faster in the coming decade.** The NDP foresees significant increases in public investment in particular in the energy and mineral development sectors (see figure 1.1). In addition, the NDP anticipates that the private sector will participate for around 45 percent of the financing needed for the NDP so-called flagship projects[6].

2.2 **Well over one third of public expenditures are now allocated to public investment programs (PIP).** As a percentage of GDP, the PIP stood at 6 percent of GDP for FY07/08 and 08/09 (see table 2.1). This indicates that while overall expenditures had been declining the importance of the PIP as a spending component in the budget has increased. Given the mentioned increases that are foreseen in the NDP, the PIP expenditures can be expected to further increase as a percentage of GDP and as a percentage of total public expenditures.

Table 2.1: Public Investment Program expenditures compared to the Development Budget and Investment in Non-Financial Assets (Actual; FY03/04-09/10)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10*
Actual Expenditures (USh millions)							
Public Investment Plan	1424	1191	1126	1733	1496	1820	-
Development Budget	1048	1229	1256	1112	1371	1657	2491
Investment in Non-Financial Assets	522	541	468	469	529	770	-
Actuals as % of GDP							
Public Investment Plan	10.2	7.4	6.2	8.2	6.1	6.0	-
Development Budget	7.5	7.7	6.9	5.2	5.6	5.5	7.2
Investment in Non-Financial Assets	3.7	3.4	2.6	2.2	2.2	2.6	-
Actuals as % of Expenditures and net lending							
Public Investment Plan	47.6	36.4	31.7	45.6	34.2	35.1	-
Development Budget	35.0	37.5	35.4	29.2	31.4	32.0	39.1
Investment in Non-Financial Assets	17.5	16.5	13.2	12.3	12.1	14.9	-
% of the PIP							
Development Budget	73.6	103.2	111.5	64.1	91.7	91.0	-
Investment in Non-Fin Assets	36.7	45.4	41.6	27.1	35.4	42.3	-
* Estimates							

Source: PIP, MOFPED.

[6] See National Development Plan [2010/11-2014/15], NPA, Government of Uganda. The Joint Staff Advisory Note (JSAN), jointly prepared by the staff of the IMF and the World Bank, and which was discussed by each respective Executive Board, broadly endorses the focus and scope of the NDP.

2.3 **The actual investment component of the PIP, however, has been declining since the beginning of the century and stood at a meager 2.6 percent of GDP for FY08/09** (see table 2.1)**.** This indicates that a large part i.e., over 60 percent of expenditures are spend on current expenditure components of the programs that are part of the PIP or on programs that are of a technical assistance nature without any or much of a physical capital component e.g. the public sector management and accountability sectors. In addition, a variety of programs have entered the PIP that have long term growth implications for Uganda, but their public capital expenditure component is low or non-existent, like National Agricultural Advisory Services (NAADS) (See table 2.2)[7].

2.4 **A holistic approach to the PIP and its linkage with Growth and Poverty reduction, i.e. including all program related expenditures, is not undesirable, but it is important to present clearly what is capital investment, what is TA, and what is current expenditure**. Clearly the PIP in Uganda has evolved to include projects and programs that have a long lasting impact on the efficiency and effectiveness of the government's own internal operations and those that provide growth enhancing services to its population in conjunction with projects and programs that are of a capital investment nature. Consequently, it will be important to define more clearly what types of programs are to be considered as part of the PIP.

Table 2.2: Budgeted spending on non financial assets creation as a percentage of total development expenditures per MTEF sector (FY2003/04-FY2010/11)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	5 year average
Agriculture	20.9	16.0	11.1	9.2	19.2	12.9	24.3	43.0	19.4
Tourism, Trade and Industry	38.6	37.6	30.2	2.5	34.6	70.1	78.0	62.2	62.8
Energy and Minerals	91.3	94.5	42.0	36.1	48.0	43.6	0.8	19.0	6.8
Works and Transport	95.0	96.4	93.8	95.8	89.5	95.0	91.6	82.2	90.8
Information & Comm Technology				75.0	73.7	42.0	21.6	44.4	35.8
Lands, Housing and Urban Dev	38.1	23.8	35.9	33.2	22.8	21.8	41.6	40.3	40.9
Education	56.5	9.7	24.2	44.9	59.2	57.4	81.5	71.0	63.7
Health	71.8	83.8	73.0	65.2	63.6	69.9	85.3	84.2	73.6
Water and Environment	0.0	0.0	0.2	26.3	32.3	27.6	73.1	73.1	43.6
Social Development	20.9	10.3	14.0	23.5	28.7	30.9	7.6	22.7	23.1
Justice, Law and Order	88.2	69.6	74.2	63.5	56.1	56.0	51.2	85.1	72.6
Accountability	13.4	66.4	52.9	45.9	33.0	32.5	19.1	34.8	31.8
Public Sector Management	5.0	6.7	11.9	4.7	8.0	73.9	24.7	47.4	47.2
Public Administration	92.3	93.7	77.6	98.8	99.1	92.6	96.0	92.5	95.5
Legislature	97.3	100.0	27.0	11.4	65.2	76.6	72.2	77.6	59.0
Security	92.3	90.6	94.5	86.1	83.9	93.9	99.7	99.8	93.3
Grand Total	**57.8**	**51.3**	**46.9**	**40.6**	**46.2**	**63.6**	**54.2**	**63.4**	**55.8**

Source: MoFPED and World Bank Staff Calculations

2.5 **The current presentation of the budget in recurrent and development expenditures, in which development expenditures basically equals the PIP, does not communicate clearly the investment part of the Government's budget.** Presenting

[7] Note that Table 2.1 is based on actual expenditures while Table 2.2 is based on planned expenditures. Even though this is sub optimal, it does not interfere with the messages communicated. This is primarily due to the availability of data.

the budget in a standard economic classification is desirable. A detailed breakdown of recurrent expenditures and development expenditures/PIP, by function, sector, and economic classification, can be added to improve the transparency and intentions of the budget. The current presentation used for the budget to present to parliament and other stakeholders hazes the policy intentions of the annual budget.

B. COMPOSITION OF THE PIP

2.6 **The 2009/10 PIP includes 295 projects with an expected average lifespan of just below 6 years.** However, the 2009/10 PIP also includes 42 projects that do not have a closing date and can be considered perpetual projects. The largest number of projects, 71, is in the transport and works sector, with agriculture, 33 projects and, accountability, 31 projects, and public sector management, 29 projects, as close seconds in the PIP for FY2009/10. Most of the new projects initiated in FY2009/10 are also in the transport and works sector, 17, with the public administration sector with 14 new projects right behind (see table 2.3). Note that the longest projects are in parliament, water and environment, justice, law and order, and land housing and urban development, each with a lifetime of well over ten years.

Table 2.3: Characteristics of the FY2009/10 Public Investment Program

	# of projects in FY2009/10 PIP	% of total project	# of new projects in FY2009/10	% of total new projects	# of projects closing in FY2009/10	% of total projects closing in FY2009/10	# of Perpetual projects in the PIP	% of total Perpetual projects	Average lifetime of projects in PIP in years	Median lifetime of projects in PIP in years
Agriculture	33	11.2	6	9.7	2	11.8	1	2.4	5.9	5
Tourism, Trade & Industry	8	2.7	3	4.8	0	0.0	3	7.1	5.4	5
Energy and Mineral Development	11	3.7	1	1.6	0	0.0	4	9.5	5.3	4
Transport and Works (roads)	73	24.7	17	27.4	11	64.7	14	33.3	3.7	3
Information and Comm Technology	6	2.0	0	0.0	0	0.0	0	0.0	4.0	4
Land, Housing & Urban Development	4	1.4	0	0.0	0	0.0	0	0.0	10.5	11
Education	21	7.1	4	6.5	1	5.9	1	2.4	8.1	6
Health	18	6.1	2	3.2	1	5.9	9	21.4	5.7	5
Water & Environment	23	7.8	2	3.2	0	0.0	0	0.0	11.6	12
Social Development	9	3.1	0	0.0	0	0.0	3	7.1	5.8	5.5
Justice, Law and Order	8	2.7	2	3.2	0	0.0	2	4.8	10.2	11.5
Accountability	31	10.5	6	9.7	2	11.8	5	11.9	4.1	5
Public Sector Management	29	9.8	5	8.1	0	0.0	0	0.0	5.0	4
Public Administration	18	6.1	14	22.6	0	0.0	0	0.0	5.5	4
Parliament	1	0.3	0	0.0	0	0.0	0	0.0	16.0	16
Security	2	0.7	0	0.0	0	0.0	0	0.0	9.5	9.5
Total	**295**	**100.0**	**62**	**21.0**	**17**	**5.8**	**42**	**14.2**	**5.8**	**5**

Source: MoFPED, PIP, and World Bank staff calculations.

2.7 **The PIP has shifted its focus over the last decade away from projects focusing on human development to infrastructural related projects while maintaining its focus on strengthening institutions at the center of Government.** In the beginning of the decade the education, health, and social assistance sectors counted for 25 percent of all projects and 35 percent of PIP related spending. By the end of the decade, the number of projects as a percentage of total projects stood at approximately 15 percent and equaled 10 percent of total PIP spending. The sector land, housing & urban development saw a similar decline in importance, while transport and works and water & environment saw significant increases (see table 2.4).

2.8 **Expected growth sectors such as agriculture and energy and mineral developments saw their expenditures increase significantly.** Even though the number of projects in the sectors hardly increases, the actual spending over the period FY06/07-08/09 rose significantly, signaling the increased importance given to agriculture as a source of economic growth and poverty reduction and the emerging of the oil sector in Uganda.

Table 2.4: Number of projects by sector (MTEF) and actual spending by sector as % of total PIP spending, FY00/01-09/10

% of projects	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10
Agriculture	11.5	13.6	14.8	13.7	11.2	7.4	7.3	9.5	8.7	10.4
Tourism, Trade & Industry	4.2	4.1	3.4	4.6	3.5	3.7	3.5	3.4	2.8	2.9
Energy and Mineral Development	3.7	3.3	2.0	2.9	2.3	3.3	3.1	3.4	3.8	3.2
Transport and Works (Roads)	15.2	16.8	15.9	16.3	22.5	23.9	23.1	22.3	26.0	23.9
Information and CommTechnology	0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.1	2.1	1.9
Land, Housing & Urban Development	11.3	10.6	12.5	10.0	10.1	9.9	3.8	2.3	1.7	1.6
Education	11.5	11.1	11.4	12.3	11.2	8.6	7.7	6.8	6.2	6.8
Health	9.9	9.8	9.4	10.0	7.0	7.4	7.7	6.4	5.9	6.1
Water & Environment	0.3	0.3	0.3	0.3	0.4	0.8	8.5	8.7	7.6	7.8
Social Development	4.5	4.1	4.5	4.6	3.1	4.5	3.1	3.8	3.1	2.9
Justice, Law and Order	3.4	3.8	4.0	4.0	3.5	4.1	3.8	3.8	3.1	4.2
Accountability	14.1	12.5	10.2	8.0	10.1	9.1	9.6	11.7	11.1	11.3
Public Sector Management	7.6	6.8	7.7	8.3	9.7	9.9	10.8	10.2	9.7	10.0
Public Administration	2.3	3.0	3.4	4.6	4.7	6.6	6.5	5.3	7.3	5.8
Parliament	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3
Security	0.3	0.3	0.3	0.3	0.4	0.4	0.8	0.8	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
% of Actual spending	**FY00/01**	**FY01/02**	**FY02/03**	**FY03/04**	**FY04/05**	**FY05/06**	**FY06/07**	**FY07/08**	**FY08/09**	**Average last 3 years**
Agriculture	5.2	6.6	8.2	4.8	4.5	8.3	7.0	10.3	11.3	9.6
Tourism, Trade & Industry	6.8	3.9	4.5	6.1	4.7	0.8	1.3	1.0	5.4	2.7
Energy and Mineral Development	2.1	2.3	1.4	1.7	2.0	7.8	21.4	20.7	7.8	16.3
Transport and Works (Roads)	19.4	22.1	20.4	24.2	23.1	15.0	17.7	14.8	33.9	22.7
Information and CommTechnology	0.0	0.0	0.0	0.8	0.9	0.0	0.0	0.4	0.2	0.2
Land, Housing & Urban Development	9.2	10.2	9.4	8.4	9.4	8.1	1.6	0.4	0.3	0.8
Education	18.1	13.1	12.9	9.5	10.6	11.0	4.2	5.8	6.2	5.4
Health	15.4	14.5	14.8	15.8	15.7	14.4	7.2	3.3	3.7	4.8
Water & Environment	2.2	2.2	2.3	1.8	2.3	2.5	8.6	11.3	7.4	8.9
Social Development	1.8	0.9	1.3	2.2	1.4	0.6	0.3	0.4	0.4	0.3
Justice, Law and Order	1.9	2.5	3.6	2.3	2.9	2.7	2.0	2.5	2.0	2.1
Accountability	7.9	7.6	8.5	7.9	6.1	12.6	14.2	15.1	9.8	12.9
Public Sector Management	6.2	10.2	8.6	11.5	12.3	13.2	11.1	10.9	8.0	9.9
Public Administration	2.4	3.1	3.2	2.2	2.9	1.7	1.2	0.9	1.0	1.0
Parliament	0.4	0.4	0.2	0.1	0.1	0.3	1.4	0.6	0.9	0.9
Security	1.0	0.6	0.8	0.7	1.1	0.9	0.7	1.8	1.8	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

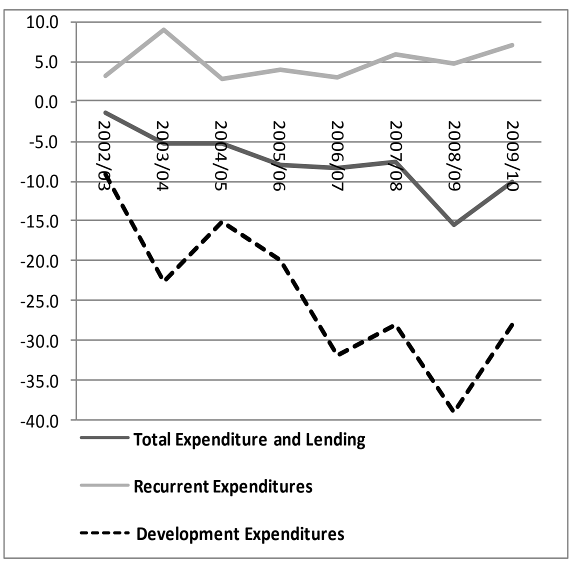
Source: MoFPED, PIP, and World Bank staff calculations.

2.9 **The current institutional process focuses on participation and affordability.** A project that is proposed for inclusion in the PIP is first discussed in a so-called Sector Working Group (SWG). Each sector working group has broad participation i.e. relevant government agencies, NGOs, and bilateral and multilateral donors including IDA. Once a PIP proposal is discussed and approved by the SWG, it is submitted to Development Committee of the Ministry of Finance, Planning and Economic Development. Guidance for each proposal is provided through an internal guidance memo, "Guidelines on policies and procedures for approval of new projects through the Development Committee" (MoFPED, August 2007). If a proposal by the SWG is broadly in line with Uganda's national priorities and most importantly has funding or fits within the MTEF sectoral ceilings, the Development Committee hardly rejects a proposed project.

C. BUDGET EXECUTION AND RESOURCE PREDICTABILITY

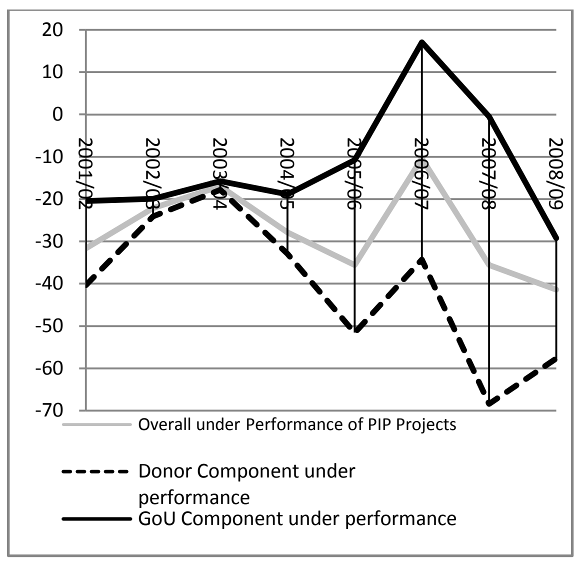
2.10 **Uganda's budget including donor projects has consistently under executed at the expense of capital expenditures and the situation seems to be worsening** (see figure 2.1 and table 2.5). Total budget execution has deteriorated since FY2002/03 where it under executed by only 1.4 percent, however, over the last two FYs the budget has under executed by over 10 percent. While the recurrent budget has over the years over executed at on average about 5 percent since FY2003/04, the capital budget has consistently under executed more so in the recent years by an average of over 24 percent in the last five years.

Figure 2.1: Budget Execution, 2001/02-2009/10 (% deviation from planned; - = under execution)



Source: MoFPED

Figure 2.2: PIP Budget Execution, 2001/02-2009/10 (% deviation from planned; - = under execution)



Source: MoFPED

2.11 **Execution of the development budget is less than impressive even though overall budget execution is strong** (see figure 2.2 and table 2.6)**.** The donor component of the development budget has consistently executed below planned targets. On the other hand, the budget excluding donor development budget component has on average performed according to planned targets. However, the domestic development budget, with the exception of FY2006/07 and FY2007/08 has under executed on average by 8 percent, with the last two Fiscal years recording under execution of over 8 percent. These absorptive capacity challenges in the development budget need to be addressed for a prudent fiscal policy for growth.

Table 2.5: Fiscal performance by economic classification: Outturns over budgeted amounts (2002/03-2009/10)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue	95.5	102.9	108.2	93.5	103.4	93.3	90.0	91.7
Taxes of which	100.1	98.7	102.6	102.4	106.1	101.8	95.8	96.7
URA	101.2	99.2	103.1	101.0	104.1	102.8	95.1	96.5
Other revenue	60.7	75.9	73.3	164.4	230.8	75.4	119.6	113.5
Grants of which	87.8	109.8	118.7	76.4	97.2	66.0	71.8	73.6
Budget support	94.7	150.8	164.2	79.4	130.5	91.8	107.3	104.7
Project support	79.0	66.1	72.9	73.2	63.7	38.7	47.9	44.8
Expenditure and Lending	98.6	94.8	94.8	92.0	91.7	92.4	84.5	89.9
Recurrent Expenditures of which	103.3	108.9	102.8	104.0	103.0	105.9	104.7	106.9
Wages & Salaries	97.7	101.5	101.1	103.6	101.2	99.2	98.6	99.7
Non-wage	106.3	113.8	108.5	104.3	107.4	111.8	111.5	102.4
Statutory	94.1	109.6	101.6	138.1	109.2	108.2	111.7	178.3
Interest Payable of which	120.5	115.3	91.9	85.4	90.0	107.0	96.0	96.7
Domestic	79.0	43.9	96.9	108.3	73.8	74.0	89.3	81.0
External	160.6	272.7	90.1	79.6	94.1	114.0	97.1	100.0
Development Expenditures	90.9	77.3	84.8	80.1	68.0	72.0	61.0	71.9
Donor projects	90.2	77.2	78.5	72.6	38.3	53.6	33.8	52.0
Domestic	91.7	77.5	96.3	93.9	120.0	103.3	87.2	91.0
Net lending & investment	53.3	(14.3)	(43.2)	(50.0)	(4,395.7)	95.4	142.1	77.9
Domestic Arrears Payment	108.8	103.8	120.5	106.5	101.1	101.5	93.5	100.0
Memo: Expenditure and Lending (excl. donor projects)	101.2	100.6	100.8	98.9	109.5	105.5	98.6	101.8

Source: MoFPED and World Bank Staff calculations

2.12 **The infrastructure (except in FY2006/07) sectors are under executed.** Works and Transport has on average under executed its planned projects in the PIP by over 25 percent in the last decade. While the energy and minerals sector with the exception of FY2006/07 has under executed its planned projects in the PIP on average by over 35 percent over the last FY decade. During the last decade, on average the whole PIP across all sectors was under executed (see Table 2.6). Going forward the challenges to this trend of affairs need understood and ably addressed in face of anticipated expansion of Uganda's fiscal space.

2.13 **There is need for better planning to address absorptive capacity challenges in Public Investment Program (PIP).** Projects in the PIP are consistently under executed with the donor component performing worse than GoU component. With the exception of FY2006/07 and 2007/08 where GoU component of PIP budget over performed, both the donor and GoU components of PIP budgets have performed below their planned levels.

Table 2.6: PIP Performance by Sector: Actual over budgeted spending (2001/02-2008/09)

Donor plus GoU	FY01/02	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09
Agriculture	53.3	67.3	67.6	53.6	70.3	98.7	86.5	104.8
Tourism, Trade & Industry	47.1	134.6	68.8	197.6	46.6	70.4	48.8	107.3
Energy & Minerals	30.3	46.7	47.7	41.5	50.0	106.7	59.1	26.4
Transport & Works (incl. roads)	68.8	72.5	86.7	74.9	48.7	78.0	49.2	67.0
Information & Communication Technology	-	-	-	-	-	100.0	95.6	89.1
Lands, Housing & Urban Development	59.1	62.1	70.4	60.6	63.7	197.1	87.5	80.4
Education	76.6	87.1	75.6	78.0	93.3	86.2	82.7	60.6
Health	81.2	84.5	87.8	78.2	53.7	66.2	25.4	20.5
Water & Environment	85.9	88.7	86.2	94.4	77.0	124.8	113.5	90.2
Social Development	74.8	137.0	320.5	110.7	56.0	90.6	67.9	62.5
Justice, Law, and order	102.5	116.9	72.0	82.6	68.2	83.6	99.7	71.2
Accountability	70.9	101.1	95.8	39.9	95.1	91.5	69.3	60.2
Public Sector Management	85.4	63.6	86.3	82.7	70.4	71.0	66.1	58.5
Public Administration	85.9	76.0	116.1	74.9	90.5	104.5	56.9	66.7
Legislature	142.5	64.4	57.5	33.5	67.8	262.8	87.9	95.1
Security	49.0	60.4	75.7	75.3	78.4	85.5	85.7	100.7
Overall Performance of PIP Projects	**68.3**	**77.9**	**83.0**	**72.2**	**64.4**	**89.6**	**64.4**	**58.6**
o/w Donor Component	59.7	75.9	82.2	67.1	48.4	65.8	31.6	42.4
o/w GoU Component	79.5	80.1	84.2	81.1	89.2	117.1	99.5	70.7

Source: MoFPED and World Bank Staff calculations

3. PUBLIC FINANCIAL MANAGEMENT CHALLENGES FOR UGANDA'S PUBLIC INVESTMENT

A. BUDGET COMPREHENSIVENESS AND TRANSPARENCY

3.1 **The public budget does not record all public spending and the amount of actual project spending is difficult to calculate and evaluate.** The budget covers ministries and legislative and judicial institutions, but many other public agencies executing externally financed projects fall outside its purview. First, state subsidies and transfers to numerous autonomous entities and local government organizations are recorded, and the entity budgets are included and consolidated in the National Budget, but their use is known only at year closing. Second, some donor-financed spending is not recorded in the budget[8]. Third, the budget does not provide an accurate picture of state revenues. In this context, the government's firm decision to integrate project flows in the central accounting system is very positive and should allow more transparency and better knowledge of total revenues.

3.2 **Inadequate budget classification and recording hampers government accountability and transparency.** There is a lack of widely available norms to link project programming to operations and maintenance spending. Formulation, execution, and reporting of the central government's budget continue to use different classifications, leading to information gaps that prevent the government and Parliament from monitoring compliance with initial budgetary authorizations. Indeed, the initial and revised budgets are presented using an economic (by nature of expenditure)[9] and an administrative (by organizational unit, including ministries) classification, but consolidated data on budget execution using both classifications is highly diluted. This is caused to a large extent by the large number of autonomous and decentralized entities in the budget that do not report periodically. Consequently, Parliament approves spending allocation by administrative units and economic category but does not receive information about actual expenditure by the former. As a consequence, incomplete and therefore, unreliable information on budget execution, including on the PIP, can be expected to translate into weak budgetary preparation in subsequent years.

3.3 **The current budget classification provides hardly any information on public investment expenditure programs, although it represents 35 percent of the budget.** It is estimated that around 60 percent of budgeted investment in the PIP—such as training programs, pharmaceutical purchases, studies, the design of development plans—should in fact be considered as current expenditure.[10] The budget accounts are reportedly

[8] The PEFA (2009) states that expenditure by project implementation units out of donor disbursements to special accounts, is not tracked by the Accountant General. In addition, significant resources (US, Japan and vertical funds) also flow outside the budget process.
[9] Wages and salaries, goods and services, interests, interest payments, transfers and subsidies, investment expenditure, debt amortizations, special funds.
[10] See also section 2.

compatible with GFSM 2001 and yet, the public accounts are not applying accrual elements on a systemic manner which would further facilitate audits otherwise.

3.4 **The government should update the definition of what type of programs are to be included in the PIP and should make this clear to all stakeholders.** Currently, the PIP is a mixture of programs that create public assets through capital investment, create capacity within government through technical assistance, and delivery of services that enhance the growth prospects of particular sectors. A definition that focuses on the temporary and project specific nature of programs could usefully be considered. This would allow for the inclusion of technical assistance and capital investment focused projects, but would not allow for inclusion of programs that deliver services like those under the NAADS program.

3.5 **Public access to key fiscal information is limited.** Information on the public budget and government performance is accessible to the general public, but key pieces of reporting are still missing. Annual budget documentation, which is the most widely available information in the ministries, exists both in printed and electronic form. In-year budget execution and mid-year budget review reports are available through the MOFPED Budget Monitoring and Accountability Unit. External audit reports are also available and the Office of General Auditor is now conducting value-for-money audits and publishing for certain agencies. At the core of reporting requirements is, nonetheless, the lacking of contract awards and contractor management and milestone compliance which are essential to improve project performance. Given the lack of access to published material and to the internet, only a small percentage of the population could access such information, but this would still represent an improvement over current practice.

B. THE PIP AND BUDGET PROCESS: STRENGTH AND WEAKNESSES

Budget and Project Preparation

3.6 **The new budget legislation mandates clear functions and roles to all public institutions in charge of the preparation and implementation particularly of the capital budget, including the local governments**. The MOFPED Department of Budget is responsible for preparing and supervising the execution of recurrent expenditures, and its only role in the development budget is to set the global ceiling. The MOFPED Department of Economic Planning, on the other hand, is responsible for the Development or PIP budget. According to the budget law, both are required to coordinate and periodically review the consistency and cohesion of the budget preparation to ensure that all resources are linked to a production function and, regardless of the nature of expenditures, aligned to strategic goals (programs) and policy objectives (activities).

3.7 **Lacking of a coordinated and unified budget raises inconsistencies and makes it difficult for sector ministries to decide on adequate distribution of capital and current expenditures in their respective sectors.** Under the current system, for example, inconsistencies can arise if the demands for recurrent and development expenditure evolve differently during budgetary negotiations with the Budget Department and the Department of Economic Planning. Recurrent expenditure in social sectors, for instance, might be shortchanged even though it yields a higher rate of return than some infrastructure investment. Unifying budgetary responsibilities further would allow sector ministries and other public entities to redress that imbalance by allocating current and capital spending resources to each project more effectively.

3.8 **Budget preparation of recurrent expenditures does not always adequately reflect operational and maintenance costs, but it contains lots of underperforming and continuous extended projects.** Under current procedures sector ministries submit a first budget proposal, which is evaluated by the Budget Department with a purpose to avoid overspending in non-priority ministries that are particularly ambitious in their initial request. Yet, the budget process still fails to adequately take into account the cost of operating and maintaining infrastructure once it has been delivered. This problem could be avoided, for example, through a project score card that is integrated in IFMS that indicates, among other things, investment and maintenance costs, planned operational expenses, and a project investment timeline together with an associated (multi) contractor work schedule to properly plan annual project budgeting and avoid project extending once and again. This project score card would be updated regularly during construction and with relevant additional information as needed and submitted to the relevant line ministry or agency in charge of implementation and to the Development Committee.

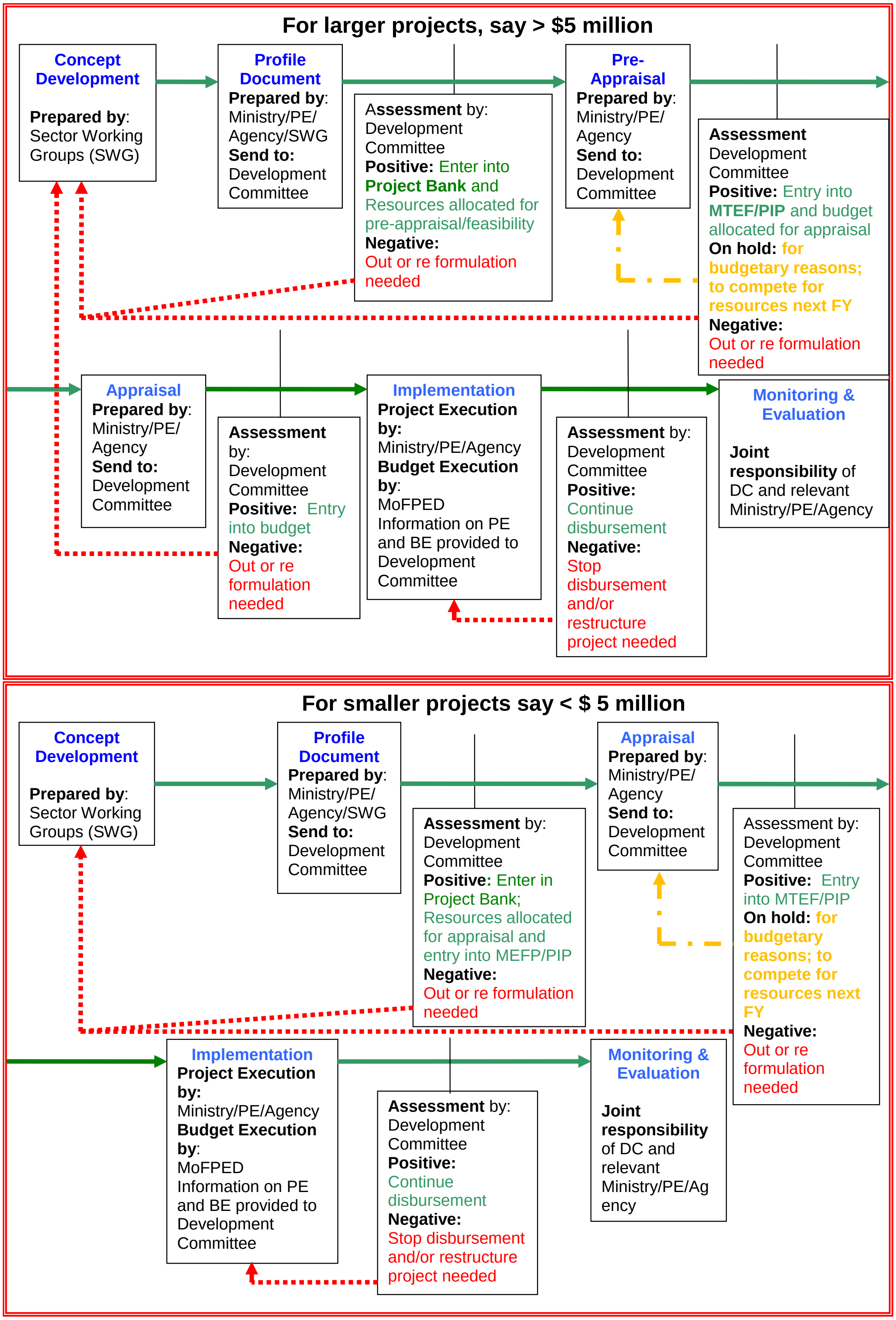
3.9 **Planning of capital investment needs to be improved to ensure that projects correspond to NDP priorities and to facilitate their follow-up**. The latest PIPs shows the authorities' determination to increase the amount budgeted for capital expenditures in economic infrastructure and its continuation of technical assistance projects supporting the transparent and accountable functioning of government.

3.10 **The PIP is focused on the affordability of new and included projects.** Currently, projects are only included in the PIP when the programs fit within the MTEF ceiling and the annual budget for the immediate year under consideration. On the one hand, this characteristic is a strength of the PIP as it does not consider programs for which no resources are available. On the other hand, it also means that there is no inventory of projects that could be implemented if additional resources would become available[11]. This is a major shortcoming as the process for project preparation is often a time consuming process.

3.11 **The expansion of the PIM process to include a so-called project bank with priority and almost ready to be implemented projects can greatly improve the effectiveness of the PIP.** Many countries have institutionalized a project bank in which

[11] A clear example of this shortcoming was the fact that the increases in the roads budget of FY07/08 took almost three years before these projects resulted in actual building of roads as the preparation, planning, and design phase takes close to three years with the actual building of roads taking another three years.

Figure 3.1: Proposed Schematic Public Investment Project cycle



projects that are expected to be beneficial to a country's development are entered in and which will potentially be included in the PIP when resources are available. A first important adjustment to the current process would thus be to expand proposals considered by the Development Committee to include a number of projects that do not fall within sectoral MTEF ceiling/overall budget envelope for investment but are considered highly relevant for Uganda's growth and development and indeed if additional financial resources would come available would be the first to be included in the PIP and therefore in the annual budget. Figure 3.1 shows how such an adjustment to the current processes in place a reality would look like. The institutionalization of a project bank would also require a revision of information that needs to be provided to the Development Committee (see annex 1 for an example).

3.12 **Projects in the PIP almost always lack any pre-appraisal and/or feasibility analysis.** This has also reduced the effectiveness of the PIP and the overall budget. However, it is important to realize that different types and different sizes of projects should go through different evaluations. Uganda could usefully differentiate between average size projects and small size projects with each of them going through a different level of scrutiny including cost-benefit analysis (see box 3.1). In addition, one might want to think through what type of gate keeping role the DC should play for mega projects which are often decided at the political level. For example, requiring an independent review of a mega project proposal such as e.g., an oil refinery or a hydro generation project, which the minister of MoFPED or the chairperson of the NPA would table at cabinet could improve the decision making process for mega projects.

3.13 **A designated fund for studies under control of the Development Committee could be set up that would allow a number of priority projects to undergo feasibility and/or pre-appraisal studies while awaiting inclusion in the PIP and thus the Budget.** This could significantly improve the readiness of PIP projects. The management of such a fund could be assigned to the Development Committee. It would be important to harmonize the analysis done with those of the donors as to ensure that no duplication of the feasibility and/or pre-appraisal is needed.

3.14 **It will be important to strengthen the collaboration between the National Planning Authority (NPA) and the Development Committee (DC).** A first important step could be to have the NPA join the Development Committee and task the NPA with ensuring that all proposed programs are in line with the NDP itself and with sectoral strategies. At the same time the MoFPED could ensure that the costing of the priority project included in the NDP are as accurate as possible and have undergone appropriate cost-benefit analysis.

Box 3.1: Cost Benefit Analysis -A Primer

Cost-benefit analysis assesses the costs and economic benefits of a project and reduces them to a common denominator. If benefits exceed costs—both expressed in terms of present value-than the project is acceptable; if not, the project is rejected. Benefits are defined relative to their effect on the fundamental objectives while costs are defined relative to their opportunity cost, which is the benefit forgone by not using these resources in the best alternative use. By doing so, cost-benefit analysis seeks to ensure that no alternative use of the resources consumed by the project would secure a better result from the perspective of a country's objectives. Thus, if *X*, defines the benefit from the project in year *t*, *C* defines the cost today, *r* is the discount rate, and *n* the number of years that the project is expected to deliver benefits, then in very simple terms, a project is selected if: $\Sigma X(t) /(1 + r)^t - C > 0$

Economic analysis is similar in form to financial analysis in that both assess the profit of an investment. The concept of a financial profit, however, is different from that of a social profit of economic analysis. The former identifies the money profit accruing to the project-operating entity whereas the latter measures the effect of the project on the fundamental economic and social objectives. These different concepts are reflected in the different items considered to be costs and benefits and in their valuation. Thus, a money payment made for wages is by definition a financial cost, but it will be an economic cost only to the extent that the use of labor in this project implies some sacrifice elsewhere in the economy with respect to output and other objectives. Conversely, if the project has an economic cost which does not involve a financial flow—for example, because of environmental costs—this does not constitute a financial cost. Economic costs and benefits are measured by "shadow prices" which may approximate market prices in well functioning market systems. However, imperfect markets-like those characterizing transition economies-typically reflect a divergence between them. The key requirements for social cost-benefit analysis are: (i) specification of the costs and benefits; (ii) valuation of costs and benefits; (iii) choice and formulation of constraints; (iv) treatment of risk and uncertainty; (v) choice of the rate of interest for discounting future costs and benefits; and (vi) choice of a decision rule for accepting or rejecting projects.

It is however important to realise that not all projects warrant a full cost-benefit analysis or lend themselves well for cost-benefit analysis. For example, traditional investment project such as electricity generation plants, hospitals and or water treatment facilities are good examples for which cost benefit analysis is an excellent tool to assist the decision maker regarding the project net economic benefits. However, it is often seen as too difficult to carry out cost benefit analysis for technical assistance projects and or not cost efficient to do cost benefit analysis for projects below a certain size.

Source: Lyn Squire and Herman van der Tak, 1975, Economic Analysis of Projects, Baltimore and London—London—in the World Bank report “Russia: Towards Improving the Efficiency of Public Expenditures” (2001)

3.15 **Strong participatory approach through sector working groups and links with sector strategies has not led to PIP project proposals of adequate quality.** In general the PIP proposals submitted to the DC are of an uneven quality and hardly any include cost-benefit analysis. Clearer guidance to sector working groups and their stakeholders in particular line ministries is necessary to improve the quality of submitted proposals. The current guidelines could usefully include a profile worksheet that each project proposal would need to fill in and require a different process for different project sizes, say small, large and mega, and type, say of an investment or technical assistance nature.

3.16 **A phased approach for improving quality at entry is necessary given the current level of capacity with line ministries and its agencies.** At the moment a significant number of projects get prepared by donors. However, this can be expected to decline as domestic resources are financing an ever increasing part of the PIP. In addition, many line ministries outsource the preparation and sometimes even the evaluation of those projects to consultants. It is important to re-build this capacity but this will require time and a revision of the current guidance provided to teams preparing projects. These guidelines should also take into account the fact that many proposals are being prepared and evaluated by external consultants whose reports are to be examined still by government officials.

Budget Execution and Project Implementation

3.17 **Procedures for budget execution are sometimes bypassed, and lack ex ante controls, particularly those pertaining to (road) contractors fulfilling planned works according to schedule, thus reducing budget control and information quality.** The official procedure for expenditure execution is actually used for a very small percentage of public spending. The procedure separates the administrative phase (payment-authorizing officer[12]), the payment phase (public accountant), and the disbursement phase after the delivery of goods, works or services (Treasury). Commitment payments are made against the presentation of invoices and delivered goods or services, regardless of whether or not these were provided in the quality, quantity and timing accorded in the contract.

3.18 **Once a project is selected for inclusion in the PIP, it is by and large left on its own.** As the programs and projects of the PIP are critical for Uganda's development it is important to pay close attention to its implementation arrangements as well. Elements that could help strengthen implementation are a close physical monitoring of the projects implementation through field visits as well as, say, quarterly implementation reports that are discussed by the DC and forwarded to Cabinet, ensure that the DC gets informed about any changes to the design after the contract has been awarded, and establish personal accountability of project managers for delays. Currently, the BMU of MoFPED monitors budget implementation and reports on budget execution and project implementation in its Annual Budget Monitoring Report[13]. It could be useful to build upon the current experience with the ABMR and include a section discussing the PIP. However, this should not be a replacement for internal reporting on progress with the PIP but as a tool to inform the public at large regarding progress in implementing the PIP.

3.19 **Budget execution and project implementation must be supported by a more rigorous reporting that focuses on fiduciary matters and contract management to support the payment process and explain the performance of sectors, programs and projects.** Contracts and project contractors or suppliers are not recorded into the accounting system as accrued expenditures and, hence, contractor and payment

[12] The President is the main payment-authorizing officer; the Prime Minister and the Minister of Finance are second-order payment-authorizing officers.
[13] See for example, MoFPED's Annual Budget Monitoring Report for FY09-10 of September 2010.

management processes and procedures are not matched which diminishes the quality of overall public expenditure. The point is not that a long and often centralized payment procedure ought to be replaced by a more expeditious electronic payment to accelerate budget implementation, supported by monthly budget execution reports with complete financial information available to the general public.

3.20 **In a state of the world with an automated system of internal controls, with numerous small, medium and large size projects, there is a risk that goods are paid before being delivered.** Most of the control is concentrated on the purchase commitment; with rather loose control on goods delivered[14]. This opens the possibility of paying for a good/service that is never provided. Improvements have been made recently, with the Treasury now requesting confirmation of delivery before payment. This is a positive evolution, and these payment controls should be systematically carried out, notably by the Budget Department.

3.21 **The procurement plan and contract management are often an afterthought even though the realism of the former and that manner in which the latter deals with delays and price adjustment are handled is critical for timely and within budget implementation**. In particular the experience with the roads sector shows that active management of procurement and special attention to contract management within the responsible institution is a must to implement a project on time and without cost escalations[15]. Consequently, the Development Committee should not approve a project for inclusion in the PIP if it does spell out a detailed procurement plan that include a specific time path and assigns the management of the contractor explicitly to a unit within the responsible agency for implementation.

Accounting

3.22 **The current accounting system does allow registration of assets and liabilities but is not rigorously used and makes it difficult to account for actual infrastructure spending.** The financial statements produced are budget execution reports that do not contain accrual information. Therefore, the chart of accounts is the same as the budget classification. Since the pace of infrastructure construction is raising the complexity of accounting operations, it is very important to use a form of asset registration that in a first step introduces some additional and simple accrual aspects to the current cash-based accounting system. This improved classification would provide a distinction between investment in fixed assets and other public investments, providing the basic elements for a balance sheet of public sector assets with assets registered at their acquisition cost.

3.23 **Currently, it is difficult to capture, update, and report project information from the PIP in a systematic manner and it would be useful to incorporate a**

[14] Sector ministries are responsible for ensuring that the service has been rendered or the goods delivered. The general directorate for financial control of the Budget Department is supposed to check they have done so before the mandate of payment is sent, but in practice it does not.
[15] See World Bank. (2010), Strengthening the impact of the Roads Budget, Public Expenditure Review.

separate project monitoring module in the IFMIS to enable the monitoring of PIP projects. The PIP is currently viewed as a standalone administrative application comprising an array of various associated electronic worksheets with information on each project. This results in the lacking of a financial recording and reporting system that would be able to inform on the status and relationship of projects at different sectors and levels of government and the relevant business plans and outputs. However, the IFMIS system can accommodate a separate module to handle the PIP[16].

Monitoring and Evaluation

3.24 **The major defects to M&E include rather weak coordination arrangements, parallel M&E efforts, and consequently gaps in information, and even underused information.** Government is well aware of these shortcomings and to tackle these issues has developed the National Integrated Monitoring and Evaluation Strategy (NIMES). Under this strategy, monitoring is to be implemented through censuses and surveys, administrative data, beneficiary assessments, and research studies. NIMES will report to Cabinet through a National Coordination Committee and Technical Implementation Committee and make information available to relevant stakeholders in and outside of government. The NIMES secretariat is located in OPM.

3.25 **Currently the most effective monitoring and control that touches the ground is the one done by the Budget Monitoring Unit of the MoFPED.** This unit monitors a number of priority projects first on paper by reviewing their quarterly work-program, financial plan and procurement program and then with on-site visits, checking the physical progress in works. If works do not progress they inform the Budget Directorate not to release the quarterly allotment to that entity. Such controls need to be systematically performed and inform the Development committee about progress of each project that is part of the PIP and this information should be periodically provided to cabinet. In addition, the DC should design and put in place a decision-making process to close down non-performing projects.

Internal Audit and External Scrutiny

3.26 **Internal controls exist but are not yet able to ensure adequate follow up regarding internal audits as to reduce risk of misappropriation of public goods.** Audits and inspections held in ministries entail a significant risk of not detecting frauds and irregularities since they do not do audits of expenditure procedures and do not allow close analysis of the reliability and integrity of financial information. Strengthening the role and professionalism of internal audit units is crucial to identify problems, provide recommendations in public finance management, and ensure that procedures are defined and adequately enforced. A risk-based approach to audit planning also could be developed to focus attention on the most relevant issues.

[16] Mauritius , which uses the same software as Uganda and has done so quite successfully.

3.27 **External oversight plays a strong role and provides valuable audit reports and recommendations, but follow-up and law enforcement is overly weak.** There is a national audit office (the Office of the Auditor General) with jurisdictional authority for certifying public accounts on a regular basis and there is also the Inspector General of Government (IGG). An external independent auditing office is proving essential to ensure transparency and accountability in public fund management by publishing audit findings to the public. To carry out its role adequately, this office is endowed with organizational independence, enjoys free and unlimited access to information, and in general adequately staffed and funded to operate

4. AN ASSESSMENT OF UGANDA'S PUBLIC INVESTMENT MANAGEMENT PROCESS

A. INTRODUCTION

4.1 It is important to analyze a public investment management (PIM) system along all relevant dimensions but to do this in a pragmatic manner that can lead to a PIM system that minimizes major risks that the projects will not deliver on the anticipated outcomes and provide an effective process for managing public investment programs. The diagnostic approach used in this chapter is one of "gap-analysis" of the actual PIM system in place in Uganda so as to identify those aspects of the PIM process that are weak and in need of attention. Box 4.1 identifies the main elements of such a diagnostic tool[17]. The remainder of this chapter confronts in a summary manner the status of Uganda's PIM with the desirable institutional arrangements as set forth in Box 4.1. Annex 2 provided more detailed findings and provides as is done for the PEFA assessments a rating[18] for each category.

B. DIFFERENT DIMENSIONS OF THE PIM DIAGNOSTIC

Strategic Focus, Project Development, and Preliminary Screening

4.2 **There is a well developed national development plan and a process to review whether project proposals are in line with the national and sector objectives.** There are monitoring groups organized by the National Planning Authority which include a mix of public and private sector stakeholders to oversee the implementation of the plan. Sector Working Groups (SWG) -lead by the relevant minister- identify the need, develop the project ideas and assess their consistency with national and sector priorities. There, donors often indicate their initial interest in funding the project. This is the first level of screening. The new national five year plan is expected to serve as the guidance from next budget on. Until now, the PEAP was the main strategic guidance document for setting national priorities. Some sectors/ministries have strategic plans prepared with (by) donors, some do not. But there is yet no requirement for the sector ministries to prepare strategic plans that are compatible with Uganda's National Development Plan.

4.3 **Within Government, three institutions have a role in investment management: NPA, MoFPED, and OPM.** The National Planning Authority prepares the national plan and monitors and reports on the implementation Uganda's national development plan. Within MoFPED, the Economic Affairs Directorate is the gatekeeper, appraises project proposals and manages the PIP. Budget Directorate manages the budgeting of projects and monitors their progress and releases funds. OPM monitors the overall effectiveness of Government policy. As mentioned earlier, it will be important to

[17] For a more detailed overview, see Rajaram, Minh Le, Biletska, and Brumby (2010).

[18] As this type of evaluations is only recently introduced in the World Bank, the ratings and the benchmarking is work in progress, for illustrative purposes at this stage, but that the framework can be used to prioritize reforms/adjustments to the current practices in PIM in Uganda.

avoid duplication, in particular in the area of monitoring and evaluation, and thus to coordinate closely and to define clearly one another's respective role in the PIP process.

Box 4.1: Main elements of an effective public investment management system

1. Guidance and preliminary screening	National development strategy; sectoral strategies
	First level screening to ensure strategic alignment
2. Formal project appraisal	Clarity of roles in planning process
	Formal technical guidance
	Sound project appraisal
	Proportionality of appraisal.
	Effective coordination and scrutiny of donor-funded projects
	Capacity in central agencies and line ministries.
3. Independent review of appraisals	Independent reality/quality checks
4. Project selection and budgeting	Fixed budget calendar with sufficient time for LMs to prepare capital budgets.
	Comprehensive guidance and capital spending ceilings
	Projects developed before submission to MOF in budget
	Integration of capital and current spending
	MOFPED checking of projects
	Legislature has sufficient time to consider projects.
	Legislature passes budget in a timely manner.
5. Project implementation	Published guidelines
	Detailed implementation plan with clear accountabilities
	Open competition for procurement
	Effective procurement complaints mechanism
	Commitment controls
	Predictability of funding
	Regular process reporting
	Active monitoring of progress
	Sound internal control
	Formal project completion
6. Adjustment for changes in project circumstances	Constant project adjustments
	Explanation required for variances from budget and plan.
	Mechanisms for project adjustment
	Periodic review of costs compared to benefits for major projects
	Mechanism to stop projects
7. Facility operation	Effective handover of assets
	Assets fit for purpose
	Asset registers
	Sufficient O&M funding
8. Ex-post assessment (evaluation)	Basic comparison of project costs, timelines, and deliverables against budgets and plans.
	Formal arrangements for project evaluation against plan and appraisal
	Effectiveness or value for money audits.
	Proportionality of evaluation
	Response to evaluation findings.

Formal Project Appraisal

4.4 **After approval by the SWG, the project is forwarded to the Development Committee (DC) –led by Minister of Finance, Planning and Economic Development - for its appraisal and its inclusion in the PIP.** The Economic Affairs Directorate submits its comments on projects to Development Committee. If the project passes the DC's review, then it is forwarded to the Aid Liaison Department (ALD) of MoFPED where the project is entered to the PIP database. At this stage the DC ensures that the project financial needs fits within the annual budget and MTEF allocations.

4.5 **Most of the time the project preparation procedure of the donor counts as the methodological project appraisal.** As the donor works with the responsible agency and the SWG to prepare the project, MoFPED pays attention mainly to the financing and the legal side of the project. The appraisal process is basically outsourced to a donor or the respective line ministry or agency contracts a consultant to prepare the feasibility study or project appraisal. Projects that are slightly more developed than an idea with a back of the envelop type costing can make it all the way to the Public Investment Program and budget.

4.6 **There is no systematic use of cost and benefit analysis to prioritize and evaluate projects.** No economic analysis or feasibility study is mandatory. The formal appraisal process, even though well spelled out in 'the guidelines on policies and procedures for approval of new projects through the development committee[19]' is quite weak and the government relies mainly on the appraisal processes of the donors who so far predominantly finance the investment projects. As donors vary, the quality of appraisal varies as well.

4.7 **The PIP is a project database and includes not only investments but also projects of a TA and recurrent and even administrative nature.** Currently, the PIP database is not integrated with budget preparation databases (MTEF and OBM) and IFMIS. In addition, the PIP database cannot be used to monitor investment implementation or assess strategic investment decisions. Furthermore, even though the PIP influences yearly budget allocations, it is not being used for strategic medium-term budget planning. Since 2007, a few quality-at-entry mechanisms to filter project proposals have been introduced; basic follow-up tools like the software-based design of a virtual central database of public projects are under preparation; and reporting from executing local units has been enforced with some degree of success.

Independent Review of Appraisal

4.8 **Many appraisals are done by donors or independent consultants. The Ministries do make an effort to review the proposals themselves but often even outsource the evaluation again to a local or international consultant**. It is important to take this practice into account when preparing the revised guidelines for preparation of projects which should increase the standard by which projects are being prepared.

[19] Internal Memo by MoFPED, August 2007.

Henceforth, this capacity of the consultants to live up to these new standards must be improved

Project Selection and Budgeting

4.9 **The first step in project selection is to have a prospective project discussed in the Sectoral Working Group (SWG).** The main screening of the usefulness of a project takes place at the sector working group level. Once a project, as described above, passes this litmus test, it can be submitted to Development Committee as long as it fits within the sectoral spending ceilings set by the MoFPED. Guidance on the spending limits for projects are available on the aggregate through the Budget Circular.

4.10 **The result of the budget constraint imposed for inclusion and the fact that no real feasibility analysis is done prior to inclusion in the PIP, leads to an inability to increase public investment spending in the short-term**. The emphasis on availability of financing and the absence of feasibility studies prior to inclusion in the PIP means that there is no inventory of ready to go projects when financing becomes available or when the Government wants to re-direct spending to a specific sector. Hence, the Government does maintain an inventory of projects for budgetary considerations. A well know example in Uganda was the fact that the increases in resource for the road sector in FY07/08did not lead to increased road construction. No roads projects were ready for implementation and the increased funding had to wait approximately two to three years before it resulted in actual road construction as the design and contracting phase took up nearly three years.

4.11 **Government has made good progress in integrating capital and current budgets**. The priority over the next few years should be to align better project programming and scaling of O&M spending in a medium-term framework. Forward estimates of projects are not always realistic or assessed within the sector spending envelop. The realism of the PIP budget could be further enhanced if the forward estimates were better aligned with procurement and work plans as agreed upon with the actual agency or contractor undertaking the investment. Quiet often only the total financial implications of projects are made by the sector.

Project Implementation

4.12 **There are no real incentives in the system to implement the projects within budget and to finish them in time.** To the contrary, there are plenty of incentives to delay implementation, to make frequent design changes, to renegotiate and alter contracts during implementation and to increase its costs. The entire institutional design is set up to enable that. Two years ago the MoFPED formed a Budget Monitoring Unit to check the implementation status of Government programs including those that are part of the PIP. This unit monitors some priority sectors and projects first by their quarterly work-program, financial plan and procurement program as well as on-site visits- checking the physical progress in works. If works do not progress the Budget Directorate is informed and is advised not to release the next quarterly allotment to that entity.

4.13 **The procurement plan and contract management are often an afterthought even though the realism of the former and the manner in which the latter deals with delays and price adjustment, is critical for timely and within budget implementation**. In particular the experience with the roads sector shows that active management of procurement and special attention to contract management within the responsible institution is a must to implement a project on time and without cost escalations. Consequently, the Development Committee should not approve a project for inclusion in the PIP if it does spell out a detailed procurement plan that include a specific time path and assigns the management of the contractor explicitly to a unit within the responsible agency for implementation.

4.14 **Internal controls in project implementation seem to be quite weak and dysfunctional.** Internal audit is mainly focused on financial regularity and does not depict shortcomings in internal control processes in the management of works. External audit is also focused on financial audit, constitutional mandate. The Auditor General has started to undertake Value for Money (VfM) Audits. As audits come across fraud, they are reported to other accountability organizations, but without much action. The problem is not the number of VfM audits but the impact of audit findings. Without follow up by the relevant authorities, audit reports will not deter poor performance in the field.

Project Adjustment

4.15 **Various mechanisms are in place to adjust for changes in project circumstances and often lead to significant cost overruns and delayed delivery of projects**. Even though explanations for variances from budget and plan are required and their validity reviewed and negotiated, no evaluation of the revised net benefits is done. Indeed, once a project enters the PIP it is almost impossible to stop it.

Facility Operation

4.16 **An effective handover of assets takes place but the delivery of these assets to a service operator is not formalized**. A formal document that show the official handover of the assets by the contractor to the public entity that is to operate the asset does not exist. In addition, no routine inspection takes place to investigate if the assets meet the agreed specifications. An asset register exists for land, but no valuation is done for many of the other assets build through the PIP. Operation and maintenance expenditures seem not under budgeted as these are under-executed by more than 70 percent in most sectors.

Project Evaluation

4.17 **Basic comparisons for large projects takes place but with little or no impact.** A comparison of project costs, timeliness, and deliveries against provided budgets are done by the Budget Monitoring Unit, but has little or no impact on the suspension and/or closing of a project. The government could usefully build upon the expertise build up in the Budget Monitoring Unit and design a process through which it suspends and or closes non- or underperforming projects.

4.18 **There is no ex post evaluation except for few donor funded projects.** However, the Office of the Auditor General is starting to conduct value for Money Audits. However, the impact of these audits is said to be minimal.

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Annex 1: Proposal for a Project Profile and Assessment Form

Criteria	Description[20]	Rating[21]
Aim and Objective	Discuss link with EDPRS and Sector Strategy; define Development Objective	
Economic and Social Impact on growth on equity on poverty on employment on balance of payments and forex reserves on gender	Quantify if possible, otherwise indicate direction and beneficiaries	
Financial information	Identify total investment needs Indicate cash flow over the lifespan of the project. This should include an estimate of recurrent cost after the project closes. Calculate net present value (NPV),[22] if possible, or cost effectiveness indicators	
Staffing implications	Identify the implications for staffing at the central, province, or district level including needed skill level.	
Expected results and impacts - Monitoring and evaluation	Propose outcome, output and input indicators through which the project can by monitored and evaluated	
Time scale of the project	Time needed for pre-appraisal Time needed for appraisal Time needed for implementation Time needed for impact evaluation	
Need for any changes in laws and regulations	Identify changes in business climate/environment	
Proposed project team and implementation arrangements		
Who are the stakeholders/beneficiaries		
Alternative options	Discuss why proposed project is most appropriate way of delivering on the aim and objective of the project	
Positive or negative externalities	For example discuss any impact on the environment.	
Risk and mitigation	Identify risk and mitigating measures.	

[20] If various options are considered for achieving a given set of objectives, each option can be described and assessed in separate columns.
[21] Ratings could go from ++, +, 0, -, -- at the profile stage, reflecting the limited and qualitative nature of the information available at that stage. After pre-appraisal and appraisal, the matrix can be updated and more specific and quantitative criteria can be used to assess the project. These can be developed with further technical assistance.
[22] The internal rate of return (IRR) can be misleading and should not be used, see H.M. Treasury (2003).

Annex 2: Preliminary Core PIM Indicators and their respective ratings for Uganda

Stage	Indicators and Dimensions	Findings
1. Guidance and preliminary screening	National development strategy; sectoral strategies	NDP and sectoral strategies in place, generally comprehensive reviewed. Statement of government priorities in budget circular provides guidance. Priorities set out in strategic sector plans not matched by the budget execution ratio.
	First level screening to ensure strategic alignment	SWG's and the DC checks projects' consistency with national priorities
2. Formal project appraisal	Clarity of roles in planning process	Roles well defined, but process has little analytical content.
	Formal technical guidance	There is an administrative guide on the appraisal process and a financial guide. Technical guidance i.e. feasibility studies are left to LM. There is no Cost and Benefit analysis
	Sound project appraisal	Generally limited or practically non-existent within LM before the project is submitted to donors for appraisal. The Government depends on the appraisal processes of donors. Problems with project design become apparent at later stage.
	Proportionality of appraisal.	No Cost Benefit Analysis.
	Effective coordination and scrutiny of donor-funded projects	LM, service units develop projects directly with donors. MOFPED's ALD is the coordinating entity.
	Capacity in central agencies and line ministries.	Limited technical capacity of MOFPED at project level. Sector-wide planning capability generally weak within LMs.
3. Independent review of appraisals	Independent reality/quality checks	Many appraisals get done by donors or independent consultants. The Ministries do make an effort to review themselves or outsource again to a consultant.
4. Project selection and budgeting	Fixed budget calendar with sufficient time for LMs to prepare capital budgets.	For FY 2009/2010, Budget Circular gave LMs the same time as the recurrent budget for submission of their capital budgets.
	Comprehensive guidance	Guidance on spending limits for projects available

Stage	Indicators and Dimensions	Findings
	and capital spending ceilings	on the aggregate through Budget Circular. Reviewing of sector ceilings not as rigorous though.
	Projects developed before submission to MOF in budget	Little evidence on sufficient design/planning work prior to submission. Overall a low base of adequately prepared projects.
	Integration of capital and current spending	Good progress in integrating capital and current budgets. Work still remains for aligning project programming to and scaling of O&M spending in a medium-term framework. Weak in large projects, forward estimates not weighed, implications to other associated mid-size projects not assessed within the sector spending envelop.
	MOFPED checking of projects	Only total financial checking for projects in the sector made.
	Legislature has sufficient time to consider projects.	2009/2010 budget submitted to Parliament a few weeks before the fiscal year.
	Legislature passes budget in a timely manner.	Legislature passes the budget several months in the fiscal year but first quarter warrants are released.
5. Project implementation	Published guidelines	None
	Detailed implementation plan with clear accountabilities	Some planning for financial and physical execution of projects. But nobody held accountable for progress of project implementation.
	Open competition for procurement	Any restriction for foreign firms for tender below a benchmark?
	Effective procurement complaints mechanism	There is a clear and time-bound complaints procedure laid down by the PPDA Act and explained on the PPDA website (PEFA2009).
	Commitment controls	Commitment controls set up only at the time payment orders are entered into the system. Commitments of contracts not entered in the system, track down of supplier deliverables, project implementation difficult. Timely implementation of projects unpredictable.
	Predictability of funding	Problems in both donor funding and counterpart funding. Overbudgeting common in some sectors.

Stage	Indicators and Dimensions	Findings
	Regular process reporting	Progress of project execution reported periodically.
	Active monitoring of progress	MOFPED Monitoring Unit started on-site progress monitoring, physical inspection of output deliverables and quality of works. Line Ministry systems are not effective.
	Sound internal control	Internal controls on cost over-runs of major projects, tracking down of project extensions, preventive controls for avoiding delays in project implementation all missing. Internal audit for overseeing compliance of contracts, value for money missing. Weak institutional capabilities at line agency, local government and project levels.
	Formal project completion	Arrangements in place for PIU sign-off, next steps in project cycle after delivery not programmed in accounting for O&M activities.
6. Adjustment for changes in project circumstances	Constant project adjustments	Constant extensions approved by most line ministries, precautionary measures missing.
	Explanation required for variances from budget and plan.	Explanations are required and provided and their validity is negotiated and adjusted.
	Mechanisms for project adjustment	There are plenty of mechanisms for project adjustment. Contract adjustments are much less transparent than the procurement process.
	Periodic review of costs compared to benefits for major projects	Costs are reviewed but not the benefits.
	Mechanism to stop projects	Stopping projects serves to no one's interest, including the donor. A review of the full PIP was undertaken in FY07/08 to weed out those projects that spend mostly on recurrent programs. However the results have not been impressive with capital expenditures still around a mer 40 5 of total PIP expenditures
7. Facility operation	Effective handover of assets	Delivery of assets to service operator not formalized in an official document for most projects. For those documented disclosure publicly is generally missing.

Stage	Indicators and Dimensions	Findings
	Assets fit for purpose	No routine inspection undertaken to monitor assets built fit the expected quality of expenditures.
	Asset registers	Exist for land and building. Other properties registers kept up to date as projects get implemented. Valuation and custodianship of assets recorded not possible at this time.
	Sufficient O&M funding	O&M budget under-executed by more than 70 percent in most sectors.
8. Ex-post assessment (evaluation)	Basic comparison of project costs, timelines, and deliverables against budgets and plans.	Undertaken every year for most large projects, but with little impact in that projects get extended regardless of the evaluation results.
	Formal arrangements for project evaluation against plan and appraisal	Only for some donor funded projects. Even these evaluations are said not to be independent.
	Effectiveness or value for money audits.	OAG started conducting a few VfMs. But they are said to be ineffective.
	Proportionality of evaluation	
	Response to evaluation findings.	No follow up on actions recommended in the evaluations.