PRSPs in Decentralized Contexts: Comparative Lessons on Local Planning and Fiscal Dimensions

Uganda Study

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<th>Abbreviation</th>
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<tbody>
<tr>
<td>BCW</td>
<td>Budget Consultative Workshop</td>
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<td>BFP</td>
<td>Budget Framework Paper</td>
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<td>CBG</td>
<td>Capacity Building Grant</td>
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<td>CDF</td>
<td>Comprehensive Development Framework</td>
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<td>CSO</td>
<td>Civil Society Organization</td>
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<td>DDP</td>
<td>District Development Plan</td>
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<td>DS</td>
<td>Decentralization Secretariat</td>
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<td>DSC</td>
<td>District Service Commission</td>
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<td>DTB</td>
<td>Development Transfer Budget</td>
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<td>DTS</td>
<td>Development Transfer System</td>
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<td>EFMP</td>
<td>Economic and Financial Management Project</td>
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<td>FDS</td>
<td>Fiscal Decentralization Strategy</td>
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<td>FY</td>
<td>Financial Year</td>
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<td>GoU</td>
<td>Government of Uganda</td>
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<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
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<tr>
<td>HIV/AIDS</td>
<td>Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome</td>
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<td>IDA</td>
<td>International Development Agency</td>
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<td>IGG</td>
<td>Inspector General of Government</td>
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<td>LCs</td>
<td>Local Councils</td>
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<td>LDG</td>
<td>Local Development Grant</td>
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<td>LGA</td>
<td>Local Government Act</td>
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<td>LGBC</td>
<td>Local Government Budgets’ Committee</td>
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<td>LGBFP</td>
<td>Local Government Budget Framework Paper</td>
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<td>LGDP</td>
<td>Local Government Development Program</td>
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<td>LGFC</td>
<td>Local Government Finance Commission</td>
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<td>MFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
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<td>MoLG</td>
<td>Ministry of Local Government</td>
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<td>MPU</td>
<td>Municipal Planning Units</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>MWLE</td>
<td>Ministry of Water, Lands and Environment</td>
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<td>NGO</td>
<td>Non-governmental Organization</td>
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<td>NLGPA</td>
<td>National Local Government Performance Assessments</td>
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NRM National Resistant Movement
OAG Office of the Auditor General
OOB Outcome Oriented Budgeting
PAF Poverty Action Fund
PEAP Poverty Eradication Action Plan
PEM Public Expenditure Management
PEMS Public Expenditure Management System
PMES Poverty Monitoring and Evaluation Survey
PMU Project Monitoring Unit
PPA participatory Poverty Assessment
PRS Poverty Reduction Strategies
PRSC Poverty Reduction Support Credit
PRSP Poverty Reduction Strategy Paper
PSR Poverty Status Report
PSR Poverty Status Report
RCs Resistance Councils
RDC Resident District Commissioner
RTB Recurrent Transfer Budget
RTB Recurrent Transfer Budget
RTS Recurrent Transfer System
SBL Sector Budget Line
SDG Sector Development Grant
SRB Sector Recurrent Budget
SWAps Sector-wide Approaches
SWGs Sector Working Groups
TPC Technical Planning Committee
UDHS Uganda Demographic and Health Survey
UNCDF United Nations Capital Development Fund
UNDP United Nations Development Program
UNHS Uganda National Household Survey
UPE Universal Primary Education
UPPAP Uganda Participatory Poverty Assessment Project
Executive Summary

The purpose of this paper is to review Uganda’s experience with planning in the context of the Poverty Reduction Strategy Paper (PRSP). PRSPs have been developed by countries with different histories and experiences. The next wave of PRSPs will likely be developed largely by decentralized nations. This poses a number of questions explored in this paper about how PRSPs should be best integrated into and made to reflect local planning and budgeting processes. Equally important is how PRSP objectives are reflected in local plans. Using a desk study approach, this paper examines the processes used to achieve local planning in Uganda and makes recommendations on planning for poverty reduction in decentralized polities.

The Ugandan case shows that by expanding the annual medium-term planning process of preparing the national Budget Framework Paper (BFP) to include the preparation of BFPs by all local governments, Uganda is integrating its national and sub-national planning processes. The Medium Term Expenditure Framework (MTEF), District Development Plans (DDPs), and the BFP itself are some of the instruments that account for the process of integrating national and sub-national planning processes and priorities generated by them. Poverty Eradication Action Plan (PEAP) goals are fed into local planning through these instruments.

The PEAP, which serves as Uganda’s PRSP provides the framework within which both local and national planning efforts are conducted. Every two years, the Government of Uganda (GoU) prepares the Poverty Status Report (PSR), which is a progress report on implementation of poverty reduction strategies. The PSR forms the basis for reviewing the PRSP. According to the Ministry of Finance, Planning and Economic Development (MFPED), the PEAP provides a framework within which sectors develop detailed plans... The revision process is highly consultative and incorporates views of many interest groups and individuals (www.finance.go.ug/peap_revision/, accessed on 29 March 2004). While Local Government is listed as one of the sector revision groups, and the process of reviewing the PEAP is said to be largely inclusive, it is not clear how local planning feeds into the PEAP/PRSP process.
Uganda has also developed a Fiscal Decentralization Strategy (FDS), which is being used to harmonize central and local government planning and budgeting cycles to ensure that local needs and priorities do feed back into the national budget. In general, progress has been recorded in areas such as increasing local government autonomy and widening local participation in decision-making. In other areas, however, progress has been slow. While modalities for intergovernmental fiscal transfer are being streamlined through a number of reforms, evidence of increased efficiency and effectiveness in achieving PEAP/PRSP goals within a transparent and accountable framework is scanty. However, notable achievements in implementing PEAP include: a) progress in economic growth; b) high enrolment rates of primary school-age going children; c) gender parity in primary education; d) continued reduction in HIV/AIDS prevalence; and e) increasing safe water coverage (MFPED, *PEAP Revision Guideline*, 2003/04).

Uganda’s system of local government is enshrined in the Constitution (1995) and the Local Government Act (1997). The framework, within which local governments operate, including the relative participation and weight of different levels of decentralized governments in planning processes, is provided under the country’s laws. There are up to five layers of local government in Uganda. The principle unit of local government is the District Council. There are 56 District Councils including the City of Kampala and each district is a ‘programming region’. Given significant regional disparities between northern and southern districts, the GoU uses the equalization grant as part of its ‘regional balance’ strategy. Equalization Grants are provided for in the Constitution. They are intended to boost the development of those local governments with low levels of services, and those poor districts/municipalities with low revenue potential. However, due to competition for resources among other reasons, implementing this grant has been a challenge.

Since the Local Government Act (LGA) was revised in 1997, local governments have progressively assumed more planning and budgeting responsibilities consistent with fiscal decentralization. Initially, the local government planning and budgeting processes were not well integrated. As a result, the Budget Act was passed in 2001 to address weaknesses in public expenditure management at the sub-national level. This was supplemented by the FDS, which operationalizes the systems and processes of transferring resources to local governments. Accordingly, all intergovernmental transfers fall under two systems, the Recurrent Transfer System (RTS) and the Development Transfer System (DTS). By rationalizing procedures, bank accounts and reporting mechanisms, the FDS has
relieved much of the pressure previously experienced by districts and municipalities.

The case study shows that planning and budgeting are currently being integrated in the annual national planning and budgeting cycle. Since the 1990s, efforts have been made to link resource allocations strategically with national priorities via the MTEF. At the same time the GoU has been implementing a number of public expenditure management (PEM) reforms aimed at ensuring efficient and effective use of public resources through increased transparency and accountability; creating enabling conditions for private sector development and improving public expenditure management in general. Prior to instituting these reforms, planning, budgeting, financial management and audit were virtually non-existent at local level. Though the then Ministry of Planning had district planning field offices, they were greatly under-staffed, under-resourced and merely acted as data collection centers for the line ministry.

Analysis of fiscal decentralization mechanisms, the MTEF included, show that most were not well adapted to the decentralized context particularly in the early phases of reforms when typically local governments had limited capacity in financial management and administration, weak bookkeeping skill resulting in poor financial accountability, little real power over the allocation resources and little involvement in decision making processes. However, in the context of the recent FDS, Uganda is taking steps to ensure the MTEF reflects grassroots priorities and involvement. For example, increasingly sub-national government budgets are being organized around PEAP/PRSP goals in line with local priorities.

Currently, at least three instruments--unconditional, conditional, and equalization grants-- are used in Uganda to transfer resources from central to local government. While the use of these instruments present important constraints related to administrative capacity and financial capacity and management, in general their use has been improving over time as these challenges are addressed. Measured in terms of their impact on allocative efficiency, macroeconomic stability and income redistribution, the instruments are judged to be effective. Because of their overall positive impact on several domains, their use in low income countries is justifiable. In a decentralized context, the amount of resources accruing to local governments is often inadequate to keep the administration alive and provide basic public services so badly needed by the mostly poor people. Under these conditions, intergovernmental transfer is critical for poverty reduction.
Aligning local government targets to local and national outcome indicators is critical for poverty reduction. In the case of Uganda, recent PRSP reports highlight both progress and difficulties in the delivery of services in key sectors. For example, the Uganda Poverty Reduction Strategy Paper Progress Report 2002 (Republic of Uganda, 2002b) highlights difficulties in the delivery of important health services and inefficiency in the water sector, where significantly increased funding has led to modest increases in annual outputs. For all sectors the report emphasizes the continuing challenge of maintaining and even improving the quality of service provided, and especially in areas serving poorer communities. The report further notes that while health user fees were abolished and access increased, service quality has deteriorated. Similarly, in education, the Universal Primary Education (UPE) reforms have resulted in large class sizes and unfavorable pupil-textbook ratios.

In Uganda, monitoring and evaluation (M&E) systems are established at the local and at the national level. In the context of decentralization local government capacity for monitoring is stretched especially given the fact that some of their M&E units were recently established. Central government level M&E is stronger and can (legally) intervene in local government. In general, planning data exist through a number of household surveys conducted by the Central Bureau of Statistics. While dissemination of key outputs such as annual impact reports is increasing, information needs to be used more effectively, say to improve the preparation of district plans, in monitoring poverty reduction, and in enhancing decision-making at local level.

Overall, Uganda’s efforts at integrating poverty reduction into local planning and budgeting processes have been impressive. By instituting reforms in intergovernmental relations, the country has largely overcome its legacy of vertical and horizontal imbalances. However, other challenges still lie ahead. Despite these improvements, significant challenges remain in aligning local targets and outcomes with national priorities, and in building local capacity desperately needed to handle greater responsibilities of managing public service in a decentralized context.

Based on these findings, the following recommendations are made: (1) Integrating local and central government planning efforts is a slow process with no quick fixes, even in decentralized polities. Therefore, governments and donors should be prepared for the long haul. As the Ugandan case suggests, embedding decentralization in a country’s laws provides a sound legal and policy framework for poverty reduction strategies (PRS). (2) Clearly defining responsibilities for each
level of government to the lowest possible level, particularly if backed by resources and capacity to implement, has better prospect for improving the effectiveness in linking policies, plans and budgets. (3) A clear, consistent and visible commitment at the highest level to decentralization, especially if backed by broad-based reforms, is relatively more likely to have a deeper, sustainable poverty reduction impact than say, a ‘stop-go’ policy. In other words, for decentralization to have positive impact on service delivery and poverty reduction, it must be linked to a number of reform programs, e.g. public service reforms, expenditure management reform, etc, Sustaining such broad-based reforms, let alone securing a critical mass of ‘buy-ins’, requires political commitment and government ownership of decentralization and PRSP processes. (4) Institutionally linking the PRSP with the annual budget cycle and the MTEF is a good success strategy for poverty reduction. (5) The number of instruments used in realizing fiscal transfer should be rationalized. Use of too many instruments can overload local government capacity and weaken service delivery and poverty reduction. (6) Reviewing PRSPs and improving their content is just as important as the process used to developing them. Both process and content should be given equal weight and emphasise. (7) As the case of Uganda amply shows, it is useful, given the capacity limitations of local governments in most developing countries, to draw a fiscal decentralization strategy prior to implementation. (8) While still weak and requiring improvement, Uganda’s continuous monitoring and tracking of public expenditure goes a long way to ensure that the MTEF exercise not only look at planning and projecting expenditure, but also at efficient utilization of the resources. Uganda’s monitoring of UPE is also transparent; if any resources are released for schools, it is announced . . . and no funding is released until implementation timelines are met. It thus offers a "good practice" example in terms of how it is managed and how it is monitored with the involvement of governments, non-governmental organizations (NGOs), civil society organizations (CSOs), and donors.

Introduction

To date, PRSPs have been developed by countries with different histories and experiences. The next wave of PRSPs will likely be developed largely by decentralized nations. While PRSPs often equate decentralization of government with greater and better participation, in
many countries the institutional framework to allow local participation is lacking and there are no explicit links with local government (Africa Recovery, February 2003:12). This poses a number of questions about how PRSPs should be best integrated into and made to reflect local planning and budgeting processes.

Using a case study approach this paper examines the processes used to achieve local planning in Uganda. The paper begins with an introductory section describing the local planning system in Uganda and a brief discussion of expenditure management reforms. The remainder of the paper then explores four sets of questions: on planning, expenditure programming, fiscal instrumentation, and monitoring in decentralized polities. Section two examines the linkage between national and sub-national planning processes. This is followed in the third section by an analysis of linkage between plans and budgets. In the forth section the issue of alignment of policies and instruments is examined by answering the question: How are fiscal instruments used to lend support to implementation of national plans and poverty-reduction strategies at the local level? Finally, section six focuses on issues around monitoring and evaluation. To what extent are local government targets aligned with outcome indicators? Are local governments responsible for their own monitoring and evaluation? What is the role of the central government in monitoring and evaluation, especially in cases of low capacity local governments? Can national governments intervene in problematic cases? If so, how?

Uganda’s Poverty Eradication Action Plan was developed in 1997. One year later, in the context of the medium-term expenditure framework the Government of Uganda introduced a Poverty Action Fund (PAF). In 2000, following Uganda’s qualification for debt relief under the Highly Indebted Poor Country (HIPC) initiative, the PEAP was re-formulated into a

All this happened in the context of a broad based political and economic reform agenda (see Box 1).

**Box 1: Uganda’s Road to Reforms**

Soon after coming to power in January 1986, the National Resistant Movement (NRM) led by President Yoweri Kaguta Museveni embarked on a comprehensive program for political and economic reconstruction. At the political level, reform measures aimed at increasing the extent of local participation in the policy-making process and strengthening local capacity for resource mobilization have been implemented since the mid 1980s. Power sharing in the provision of public goods and services is also an objective under Uganda’s decentralization.

At the start of these governance reforms, popular resistance councils (RCs) were established from the district down to the village level. The 1987 Resistance Councils Statute laid the foundation for the decentralization of authority to the people through their councils. This was promulgated in the 1995 Constitution of the Republic of Uganda and given full effect by the Local Government Act of 1997 (Magyezi, 2002:24). Under the LGA, resistance councils were renamed Local Councils (LCs) and institutional relationships between LCs and central government ministries streamlined.

Recent decentralization in Uganda commenced in 1993/94. The program involved substantial shifts in service delivery responsibility from central to local government. Given capacity and budget affordability constraints, the issue of capacity building necessitated restructuring at both central and local government levels. The central government level was the first target for restructuring starting in 1998/99. Initially, the restructuring process did not extend to the local governments even though the lower levels were required to adjust their structures in light of their new responsibilities, including changes in expenditure management processes. A related issue was that the transfer of responsibilities to local governments was initially not matched by commensurate levels of resource transfers.

*Source: Magyezi, 2002*

1.1 The Local Government System

As Figure 1 shows, Uganda’s local government system has five organizational tiers in rural areas and four in urban areas. Rural areas consist of Village Councils (LC I), Parish Councils (LC II), Sub-county/Town Councils (LC III), and County Councils (LC IV). In addition, there are thirteen Municipal Councils at this level, which are urban areas within rural districts. These are accorded greater political autonomy than counties, but less than districts. The final tier in the rural areas is the District Councils (LC V). Urban areas consist of Village Councils (LC I), Ward Councils (LC II), Municipal or City Division Councils (LC III), and City Council (LC V).

The district and municipal councils are the principal units of local government. Lower level councils are delegated authority from them. Only those classified as LC III and LC V, plus the thirteen municipal councils are considered “local governments” with legislative powers. The Village (LC I),
Parish/Ward (LC II) and Rural County (LC IV) Councils are administrative units without legislative powers. However, they do have assemblies which deliberate budget priorities and have a consultative role in relation to the District Chairperson, Senior Administrative Officers at higher levels of local government and Members of Parliament (Republic of Uganda, 1997 in Commonwealth Local Government Forum, 2002).
Figure 1: The Local Government System

**KEY**

Rural – Urban Administrative and Planning Interface

Divide between local governments and non-legislative and planning units
Typology of Council

Spatial Level with Legislative and Planning Powers

Spatial Level without Legislative and Planning Powers


1.2 Reforming the Expenditure Management Process

The initial phase of expenditure management reforms sought to institute controls over the macro-economic aggregates. The next phase involved government placing greater emphasis on service delivery. In order to do this the GoU embraced the Outcome Oriented Budgeting (OOB). Implementing OOB meant: 1) managers had to have additional flexibility in making personnel decisions, and 2) the performance management systems had to have sufficient rewards for managers whose decisions result in higher levels of service delivery. This required co-ordination of changes across reform programs.

Linking Planning Processes

Are national and sub-national planning processes, and the ensuing policy priorities (and strategies) integrated and balanced?

The integration of central and local government planning processes is a key issue in a decentralizing country context. Fiscal decentralization requires formulation of development programs and the integration of these programs into the national planning process. In Uganda, the annual medium-term planning process of preparing the national Budget Framework Paper (BFP) has been expanded to include the preparation of BFPs by all local governments. This innovation has allowed local governments to identify their resource needs and programs in the context of the overall resource envelop available to the government.

Following the introduction of BFPs preparation process, local governments now have better budgeted for revenues and the priority programs identified have high congruence with nationally
identified priorities (World Bank 1999). However, during the initial years sub-national jurisdictions failed to cope with the new demands of generating BFPs on time. This was to be expected due to capacity problems at the local government level. But with increasing capacity things have improved and currently local government BFPs are consolidated into the national BFP. Similarly, local government plans are consolidated into the national plan via a number of instruments discussed below.

What instruments account for their integration?

National and Sub-national Planning Processes

There are at least three instruments currently being utilized in the national and sub-national planning process in Uganda—the Budget Framework Paper, the Medium Term Expenditure Framework, and the District Development Plan.

Budget Framework Paper (BFP): The process of preparing the national BFP, also known as the annual medium-term planning process, includes the preparation of BFPs by all local authorities. The process of preparing the Local Government Budget Framework Paper (LGBFP) is linked to the process of updating District Development Plans (DDPs) [see discussion under “linking plans and budgets”]. The LGBFP seeks to integrate sub-national and national planning processes. This is accomplished through the National LGBFP Conference, which eventually feeds into the national budget process.

Medium Term Expenditure Framework (MTEF): The use of the MTEF is discussed under “linking plans and budgets”. Here, MTEF is discussed in the context of integrating national and sub-national planning processes for improving poverty reduction strategies (PRS). Good planning of resources is crucial for effectively reducing poverty. This implies a long-term perspective that informs policy and budget decisions (Fozzard et. al, 2002). In the context of Uganda’s macroeconomic framework, an indicative MTEF is prepared through a consultative process (i.e., at the Budget Consultative Workshop [BCW]) before being presented to Parliament in accordance with the Budget Act of 2001. The BCW, and the Sector Working Groups (SWGs), are part of the budget process of making
choices on expenditure priorities and resource allocation. This annual event is attended by national and local level politicians and bureaucrats: The President; the Cabinet; Members of Parliament; District Chairpersons; Secretaries for Finance, Chief Administrative Officers and Chief Finance Officers of all Districts and Municipal Local Governments; Permanent Secretaries, Under Secretaries and Accountants of all Ministries; and Accounting Officers of all other Government agencies. Civil society organizations and development partners also participate in the annual BCW.

After receiving comments from parliamentarians, donors and other stakeholders the Ministry of Finance, Planning and Economic Development revises sector ceilings in line with national and local priorities. The proposed ceilings for the Financial Year (FY) 2003/04 were adequate to fund key government priorities, such as PAF, road maintenance, counter-part funding and utility obligations. Strict procedures such as the requirement that sectors do not re-allocate away from these areas once the budget is passed are necessary to match spending with overall resource availability, greater impact on poverty, and macroeconomic stability.

Uganda’s MTEF seeks to integrate all externally funded projects so that effective control can be exercised over all components of public expenditure. Sector Working Groups are required to adopt a more realistic approach to expenditure planning in order to ensure that their demands for spending on goods and services do not outstrip the economy’s capacity to produce these goods and services (Muhakanizi, 2003).

**District Development Plan (DDP):** Under the LGA, each district or municipality, as a planning authority, is required to prepare and implement a comprehensive and integrated medium-term (3-year) rolling development plan incorporating the plans of lower level local governments and councils in their respective areas of jurisdiction (Magyezi, 2002). As described further below, the annual National Local Government Performance Assessments are used to ensure compliance by local governments of agreed policy priorities and strategies. The planning process of reviewing the DDPs also serves to feed into the LGBFP through the budgetary process (Budgetary Conference → Lower Local Government Consultations → District/Municipality Level Consultations → Drafting the LGBFP → Finalization of the LGBFP).
Given the practical as well as logical difficulties with preference aggregation, how is local planning related to national development priorities?

Analysis of the context in which local planning takes place in Uganda shows how local planning is related to national development priorities. The revised 2000 PEAP/PRSP is Uganda’s Comprehensive Development Framework (CDF). The PEAP has guided the formulation of government policy since its inception in 1997. The PEAP/PRSP provides a framework within which both local and central government planning efforts are conducted. The principles set out in the PEAP (i.e., fast and sustainable economic growth and structural transformation, good governance and security, increased ability of the poor to raise their incomes, and increased quality of the life of the poor), guide the drafting of plans at the district level (MFPED, 2004).

Since 1998, the GoU has decentralized development funds through the Local Government Development Program (LGDP) and the District Development Project among other mechanisms. To access funding from the LGDP, which is devolving development funds through the Local Development Grant (LDG) and the Capacity Building Grant (CBG), local authorities must have a council-approved District Development Plan and functional planning committees among other (minimum) conditions. Districts/municipalities and sub-counties must also have a 3-year rolling DDP in place, and expenditure under LDG has to be in line with council-approved annual plans.

The Ministry of Local Government (MoLG) and the Decentralization Secretariat (DS) have both issued guidelines for planning at sub-national level. The national guides for district development planning (issued by the DS since 1996) and the technical guidelines from line ministries are used. The MoLG also issued the "Investment Planning Guide for Sub-counties and Lower Level Councils" in May 1998. In spite of these guidelines, local planning remained fragmented. Until recently, sub-counties and parishes were only given planning figures for the LDG. Sector grants had separate planning procedures. However, under Uganda’s current Fiscal Decentralization Strategy (FDS), sector modalities are being harmonized and brought in line with the provisions of the Local Government Act and LGDP. Planning for sector development grants and the LDG are being integrated at every level (Republic of Uganda, 2002a).
The LGDP prioritizes investment in areas that increases the ability of the poor to raise their incomes and that increase quality of the life of the poor (PEAP priorities 3 and 4). In practice, LGDP investments coincide with sectors funded by the sector conditional grants (i.e. education, health, water, roads and, to a lesser extent, agricultural production). The LGDP is designed to promote planning and implementation capacities at all levels of local government and to involve the whole community in scheme selection and prioritization. The same applies to the DDP. A consideration in designing the DDP, for example, was that planning and financing of local investments must be anchored in the national statutory and regulatory framework (Kullenberg and Porter, 1998). This is provided for under the Constitution and the Local Government Act.

In summary, the objective of the FDS is to strengthen the process of decentralization through increasing local governments’ autonomy, widening local participation in decision-making and streamlining of fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments to achieve PEAP/PRSP goals within a transparent and accountable framework. The focus of the FDS is in two specific areas:

1. The promotion of local government autonomy and the widening of participation in decision-making in order to enhance the efficiency in allocation of resources towards the achievement of PEAP/PRSP goals in line with local priorities, and

2. Improving the effectiveness of local government programs through strengthening the efficiency, transparency and accountability of local government expenditures (Republic of Uganda, 2002a).

One of the ways by which local government planning is made to reflect national priorities is through harmonizing central and local government planning and budgeting cycles to ensure that local needs and priorities do feed back into the national budget. In terms of improving the effectiveness of local government programs, sub-national jurisdictions that implement programs well, in adherence to the legal and policy framework, are rewarded while those that do not face sanctions, for example, decrease in future central government allocations.

Are there examples of regional strategy development? If so, how are regional strategies developed?
The plan each district is required to produce contains medium term development program and project proposals and strategies for the region. Under Uganda’s decentralization strategy, the DDP should reflect the needs of the grassroots people. In the case of Mukono District Development Project, for example, the aim was to (i) generate and enhance local government capacity to deliver social services and alleviate poverty through effective involvement of a broad range of stakeholders (councils, civil society and private sector) in the planning, financing and management of local investments, and (ii) assist local governments to enhance their own capacity and effectiveness, and that of local stakeholders that participate in service delivery, for example, contractors (UN-HABITAT, 2002).

The production of the pilot district plan for Mukono District, which was jointly funded by the United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF), made several notable achievements. It improved local government capacity to: 1) design and develop local development plans; 2) budget and allocate resources based on locally determined priorities; 3) monitor and evaluate program performance; and 4) utilize and account for public resources in a transparent manner.

Equally important, the district development pilot evolved into a country-wide Local Government Development Program (ibid).

One of the main objectives of the current program of decentralization, which is being refined and implemented by the DS, is to improve the capacity of LCs to plan, finance and manage the delivery of services to their constituencies. Accordingly, district councils are designated as the planning authorities for the district (LGA [36:1]). District councils are required to prepare comprehensive and integrated district development plans that incorporate plans of lower level local governments (LGA [36:3]). To be able to perform these functions effectively district councils are also required to form Technical Planning Committees (TPCs) which are chaired by the Chief Administrative Officer as the head of the district technical staff. All the heads of department in districts sit on the TPC.

All district planning units are now reasonably staffed and equipped. The TPCs are now functional and the meetings are focused. Municipal Planning Units (MPUs), however, still remain weak and under-staffed. MPUs depends on one or at most two technical staff. Some municipalities employ District Planners to help them with the
planning and where this happens, the plans are relatively better quality. However, despite improvements made by local governments in the areas of planning, more is still required of them especially as regards rolling over their development plans annually.

Another issue is the relative participation and weight of different levels of decentralized governments in planning processes. Given the significant regional disparities especially between northern and southern districts, the GoU uses the equalization grant as part of its ‘regional balance’ strategy. Equalization Grants are provided for in the Constitution. They are intended to boost the development of those local governments with low levels of services, and those poor districts/municipalities with low revenue potential. In 1999/2000, the equalization grant amounted to Ush. 1.5 billion. The district equalization grants increased by 100% in the 2000/01 budget (MFPED, 2004).

The Local Government Finance Commission (LGFC), a body made up of seven appointees, four of whom are nominated by local government, advises the President on the financial position and needs of local governments. The LGFC is also responsible for advising the President on how equalization grants are to be calculated and allocated to individual local governments. In the context of fiscal decentralization, the equalization grant allocation is being simplified and will be based on an indicator of poverty and objective criteria for expenditure needs (Republic of Uganda, 2002a).

**Linking Plans and Budgets: The Annual Planning and Budgeting Cycle**

*How is local expenditure planning accomplished?*

This section starts with a discussion on how local expenditure planning is accomplished in Uganda. It also examines national and sub-national plans and makes a determination whether these devices reflect national and sub-national annual budget processes. The section further explores the issue of effectiveness in the use of MTEFs. As a follow up to this, the question to what extent do weakly linked local planning and budgeting systems undermine efforts to align national and local
poverty reduction policies is also tackled. Finally, the section concludes with an analysis of how well MTEFs might be suited as public expenditure tools in decentralized countries given capacity constraints at local levels.

3.1 Local Expenditure Planning

Since 1997, local governments have assumed more planning and budgeting responsibilities consistent with fiscal decentralization. However, this has come at a cost: Because of historical weaknesses in public expenditure management at the sub-national level, which was partly mediated through the soft budget constraint between central and local government, local governments did not have the capacity to discharge their expenditure planning responsibilities. Thus, district plans were poorly formulated and not sufficiently attuned to the resources likely to be available for spending by the district authorities. As a result, disharmony between the local and national budget cycles was evident. More importantly, the local government budget provided little input into the national budget and district budgets were difficult to execute, given unrealistic revenue and expenditure projections.

The Budget Act of 2001 was partly designed to deal with these problems. In order to integrate planning and budgeting at the local government level, the process of updating DDP was linked with the preparation of the LGBFP. Both the local government Recurrent Transfer Budget (RTB) and Development Transfer Budget (DTB) processes contribute to such harmonization, which is helping to address the dislocation of the central and local government cycles. As the following discussion shows, such changes are also helping ensure planning and budgeting at the local level feeds back into the national budget process, and local governments have a more meaningful influence on national resource allocation.

3.2 Local Government Budgets’ Committee

The formation of the Local Government Budgets’ Committee (LGB) underscored the need for central government to continue to coordinate and systematically manage the local government budget process. The LGB was created to provide a forum where local governments could formally discuss budget related issues with central government. It was also expected to provide a channel for more meaningful negotiations with local
governments on the allocation of funds.

The Local Government Finance Committee is the chair of the Local Government Budgets’ Committee. Members of LGBC include the MoLG, MFPED, and key sector Ministries and Local Government Associations. The LGBC is responsible for:

- Negotiation and agreement of allocation formulae and grant conditions between sector ministries and local governments;
- Identification of issues for inclusion in the NBFP after analyzing the LGBFP;
- Providing advice on, and acceptance or rejection of, amendments to conditional grant allocations within the RTBs;
- Overseeing the performance of the Comprehensive Local Government Assessments;
- Overseeing the coordination of Local Government Capacity Building by donors, central government and local governments; and
- Overseeing the coordination of donor support to local governments and the decentralization process.

The LGBC reports, and makes recommendations to, the PEAP Support Committee, on key policy issues relating to local governments. The PEAP Support Committee is made up of the Permanent Secretaries of the key ministries involved. During the budget process the Chairperson of the LGBC reports to the Permanent Secretary, Secretary to the Treasury, MFPED on all agreements made with local governments which have financial implications on the national budget. The LGBC is also responsible for ensuring that the conditions and guidelines associated with conditional grants, the RTS and DTS are agreed with local governments and consistent with the legal framework for decentralization before implementation. Funding is channelled to sub-national government by MFPED based on conditions and guidelines approved by the LGBC.

3.3 Comprehensive National Local Government Performance Assessment

Annual National Local Government Performance Assessments (NLGPA) are conducted by the LGDP Project Monitoring Unit (PMU). These assessments feed into the national budgeting processes. In early September of each year, the central government, led by the MoLG and with representatives from the different member institutions of the LGBC, carries out a comprehensive assessment of local governments’ performance in the previous
financial year. The aim of these annual assessments is to verify local governments’ compliance with the overall legal and policy framework, and also sector policies and guidelines.

The NLGPA seeks to verify the following for each district/municipality:

• Whether it meets the minimum access conditions and therefore should qualify for each Sector Development Grant and the Local Development Grant in the following financial year;
• The rewards/sanctions that should be given to the local government, in terms of increasing/decreasing the following FY’s Development Grant allocations; and
• Whether the legal requirements for the Local Government Budget Process were met and therefore whether a local government should be allowed to amend the sector grant allocations in the RTB.

The recurrent and development grant allocations in the DTB and RTBs for the following financial year are based on the outcome of these assessments, which should be completed by mid-October, so that they can feed into the sectoral-review processes and the forthcoming budget process.

3.4 Budget Consultations

In late September, whilst the local government assessment is going on, the LGBC holds consultations with local governments to discuss:

• Issues relating to implementation, sector policies and the budget cycle;
• The RTB and DTB formats;
• Allocation formulae for all grants; and
• Percentage flexibility of conditional grant allocations to recurrent sector budgets and sector budget lines.

LGFC and sector ministry representatives are involved in these discussions. Based on these discussions, the LGBC then negotiates and agrees with the Local Government Associations on the allocation formulae, RTB and DTB formats, and the level of flexibility for recurrent grants. Emergent issues from the LGBD-local government consultations are then presented at the National LGBFP Conference in November before they can be incorporated into the national budget process. Any local government unhappy with the agreed formulae has the opportunity to raise those concerns at the Conference.

3.5 Draft RTB and DTBs

Transferred to Local Governments
Once the allocation formulae have been established, the comprehensive National Local Government Assessment has been completed and the available resource envelope established, the LGBF enters the actual recommended transfer amounts into the RTB and DTB formats for each local government. Draft RTBs and DTBs are then sent to districts/municipalities at the time of the first set of Regional Budget Framework Workshops in October. At these workshops the allocation formulae and minimum allocations are explained fully. This provides the link between national and local budget processes.

3.6 The Local Government Planning and Budgeting Process

Once the Draft RTBs and DTBs are transferred from the central to local government, the sub-national levels start their own consultative budgeting and planning processes. As Figure 2 shows, the process of updating the DDP is then integrated with the national budgeting process through:

(a) The Budget Conference:
Districts/municipalities call the Budget Conference soon after the first Regional LGBFP workshops in October. The Budget Conference is an annual event bringing together stakeholders in the different levels of local government and civil society. The conference is held at regional centres in Eastern, Central, Western and Northern parts of the country. The main agenda of the conference is The Draft Recurrent Transfer Budget, which is presented and discussed by stakeholders in relation to local needs and priorities. Also, the Draft DTBs are discussed and indicative planning figures disseminated.
Figure 2: The Local Government Planning and Budgeting Process

KEY TO BUDGETING PROCESS DIAGRAM
Incremental Stages In The Budgeting Process

1 The First Regional LGBFP (in October)
2 The Budget Conference
3 The Lower Government Consultation
4 Districts or Municipal Level Consultation
5 Local Government Budget Framework Paper Drafting
6 Finalisation of the LGBFP
7 Submission of the BFP to LGBC local government
8 MFPED checks
9 Changes Proposals to conditional grant allocations to sector budget lines
10 Amendments appraisal (acceptance or rejection)
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<th>EVENT OR ONE-OFF ACTIVITY</th>
<th>ACTIVITIES HAPPENING SIMULTANEOUSLY</th>
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11 Accepted amendments  
12 Aggregation of amended sector budget by the LGBC  
13 Numbers feedback in the MTEF (early March)  
14 Forwarding of the draft budget to the parliament for discussion (mid-March)  
15 Dissemination of the final RTBs and DTBs to Sub-national levels  
16 Initiation of adjustment of annual work plans through dissemination by districts or municipalities

17 Submission of work plans to respective local councils  
18 Commitment by local governments to sector policies and guidelines  
19 Parliamentary involvements in the Local Government Planning and Budgeting Process  
20 Budget implementation

(b) **Lower Local Government Consultations:**

After the Budget Conference lower local governments hold planning meetings to discuss their priorities in the different sectors for both recurrent and development activities. At these discussions parishes and sub-counties identify investment activities to be carried out in the next financial year and in the medium term, taking into account the resources available in the medium-term indicative planning figures. On the basis of these discussions the parishes and sub-counties update their development plans and forward them to the districts/municipalities, along with any sector issues relating to recurrent expenditures.

(d) **District/Municipality Level Consultations:**

At the district/municipality level meetings are held with the various Sectoral Committees of the council, for the purpose of both preparing sector components of the LGBFP, and updating the DDP. The preparation of the DDP takes into account the resources available over the medium term. The TPCs and MPUs play a crucial role in coordinating these consultations.

(e) **Drafting the Local Government Budget Framework Paper:**

Amendments to the RTB are then incorporated into the sector components of the LGBFP. The process of preparing the DDPs is integrated into the LGBFP at the district/municipality level. The development components of the LGBFP reflect the activities identified in updating of the LC III plan and district/municipality development plans. The LGBFP also:

1) Sets out the local governments’ RTB;
2) Highlights changes to the RTBs;
3) Gives justifications to the changes in the RTB;
4) Indicates planned outputs from development grants for the medium term; and
5) Gives details of any other local government
issues that are of concern to central government.

(f) Finalization of the LGBFP: The draft LGBFPs are then discussed by the district TPC. The LGBC makes follow up visits to local governments to ensure that RTB amendments are in line with the allowed levels of flexibility, clarify any queries, and provide recommendations for improvement. The LGBFP is then finalized by the local government before being discussed and approved by the District/Municipal Executive. The local government then submits its BFP to the LGBC by mid January.

3.7 Acceptance/Rejection of RTB Changes and Finalization of the Budget

On receipt of LGBFPs, the MFPED checks whether the proposed changes to conditional grant allocations to sector budget lines are not below the pre-agreed minimum levels, and that the total conditional grant allocation in the RTB does not exceed the allocation provided in the draft RTB. This does not constitute an approval of the local government budget, however. It is a simple rules based acceptance/rejection of amendments to allocations of grants from central government. Approval is done by the local authority. If the RTB amendments are within the agreed rules central government accepts the local government’s amendments to the sector grant allocations in the RTB. If not the amendments are rejected, and the local government is informed of the same. This whole exercise “is objective and rules based” and “is not open to subjective debate and value judgements” (Republic of Uganda, 2002a)

The LGBC then aggregates the amended sector budget and sector budget-line allocations and feeds the numbers back into the MTEF in early March, in time for inclusion in the National BFP. After the BFP has been approved by Cabinet in mid March, the draft budget estimates are forwarded to parliament for discussion. At that time the Final RTBs and DTBs will be disseminated to sub-national level. Districts/municipalities then disseminate the indicative development planning figures to sub-counties and parishes, to initiate the adjustment of annual work plans.

The work plans are later submitted to their respective local councils for approval in conjunction with the budget. Local governments sign letters of understanding with central
government in which they agree to adhere to sector policies and guidelines, and pursue national sector goals. Local governments are also required to inform central government of their overall RTB and DTB allocations (as laid out in their budgets), and planned sector outputs for the financial year, before they are allowed to access funds. This gives central government opportunity to compile a comprehensive national picture of overall sector allocations made by local governments, taking into account all funding sources including conditional grants.

3.8 Involvement of Parliament in the Local Government Budget Process

The Budget Act 2001 involves Parliament more in the allocation of the national budget. Parliament is involved in the local government budget process. Parliament is also involved in policy making with respect to local governments, including the process of setting of national standards for service delivery both at the national and local level. The Standing Committee for Local Government Budgets ensures that there is continued focus on local government issues throughout the financial year. Members of Parliament are required to be present at the Budget Conferences of the Local Councils in their constituency. This helps to ensure that they are aware of the major local government issues in their areas, and helps improve the linkage between local and national level politics.

3.9 Budget Implementation

After districts/municipalities receive their final RTBs and DTBs, they have no discretion to switch expenditures between the sectoral budgets or sub-budget lines. On the recurrent side local government flexibility would be within the agreed sector budget-line totals. For example, in health within the specified sub-budgets for wages, allowances, drugs, transport and NGO services, not between them. This arrangement provides the degree of conditionality required for PAF expenditures whilst increasing the flexibility available to the local government during implementation. Similarly there is no discretion across budget lines within the Development Budgets. But for development expenditures there is some flexibility within budget lines to switch activities once the work plan is finalized.

Are national and sub-national plans jointly reflected in national and sub-national annual budget processes?

Planning and budgeting are currently being integrated in the annual national planning and budgeting cycle discussed above. Unlike in the past, the preparation of DDPs is no longer a separate exercise. The LGBF process involves the updating of the DDP. Since the 1990s, efforts have been made to link
resource allocations strategically with national priorities via the MTEF, which outlines all public expenditures by linking inputs, outputs, and outcomes with the objectives defined in the PEAP/PRSP. The PEAP/PRSP is the main and only instrument that guides the allocation of all government expenditure. It outlines the necessary policy actions and influences budget allocations in the medium term. An important outcome of this is that donors now have sufficient confidence to provide a growing proportion of their aid as budget support. There is a general consensus among the key actors in development cooperation that budgetary support in particular, and improved aid coordination in general, will lead to aid effectiveness (Dante, 2002:38).

Are medium term expenditure frameworks (MTEFs) used and if so how effectively?

Yes, Uganda uses the MTEF process to implement the PEAP. The PEAP is the national planning framework guiding medium term sector plans, district plans and the budget process. The revised 2000 PEAP also serves as Uganda’s PRSP. Every two years, the GoU prepares the Poverty Status Report (PSR), which is the main policy document outlining progress in reducing poverty. The PSR forms the basis for reviewing and/or revising PEAP/PRSP strategies. In addition, PRSP Progress Reports have been produced annually since 2000. These reports, which are essentially summaries of previous PSRs, serve as the “Background to the Budget”.

The expenditure implications of the PEAP/PRSP are translated into concrete spending decisions through the MTEF, which has been developed to provide a clear analysis of the links between inputs, outputs and outcomes while ensuring consistency of expenditure levels with overall resource constraints. Within sectors, the adoption of SWAps has allowed more flexibility and rational use of resources, reducing duplication and the divergence of cost structure between projects and other activities. This approach has allowed the budgetary process to become more strategic and also more participatory.

3.10 Effectiveness of MTEF

The effectiveness of the MTEF as an expenditure-planning tool depends on: 1) Improving the reliability of resource and spending forecasts; 2) Identifying key poverty reduction programs; 3) Ensuring an adequate timeframe for analysis; 4) Broadening the scope for policy analysis; 5) Opening the policy debate; 6) Using the MTEF to set budget limits; and 7) Linking spending forecasts to performance targets. Since these innovations take place within the context of the Public Expenditure Management System (PEMS), an analysis of Uganda’s PEMS is appropriate.
The GoU has been implementing a number of public expenditure management (PEM) reforms over the last few years that seek to strengthen capacities for planning, budgeting, financial management and audit. PEM reforms are aimed at ensuring efficient and effective use of public resources through increased transparency and accountability; creating enabling conditions for private sector development and improving public expenditure management in general. Action is being taken along the lines of improving the legal and institutional framework, enhancing capacity within accounting institutions and improving implementation mechanisms both at central and local government level. Prior to instituting these reforms, planning, budgeting, financial management and audit were generally weak and impacted negatively on service delivery.

The effectiveness of the MTEF is also premised on broadening the scope of policy analysis and opening the policy debate. In the area of increasing access to safe water and sanitation, for example, expansion in safe water access in the beginning of the 1990s was principally based on simple, easy-to-implement and low-cost technologies, such as spring protection and shallower boreholes. The reliance on such technologies enabled the sector to expand coverage quickly despite limited resources. However, the exhaustion of cheap options coincided with a substantial increase in funding levels.

The water sector has undergone a substantial number of reforms over the past decade, such as decentralisation, adoption of a sector wide approach to planning and privatisation of service delivery. Such reforms have ushered in a new paradigm in the management of the water sector. The new paradigm emphasizes software provision and community involvement. In this environment, the water sector has found it difficult to deliver the expected outputs, and although this is partly justifiable in the short run, the current challenges must be addressed if the PEAP water goals are to be attained. Arguably, future progress relies on achieving the twin objectives of successful decentralisation and efficiency improvements (Republic of Uganda, 2003).

Good governance dictates that government operations and decisions should be made openly and with the active participation of those people influenced by them. The budget is the primary economic policy document of government and for this reason, transparency and participation in the budget is particularly important. In order for each group of stakeholders to perform these roles, they must understand the process and know how they may be a useful part of it. They therefore should have ready access to information on the budget process and
on the budget itself, on laws and regulations pertinent to the budget process and their rights, and other data relevant to budget decision making, such as key studies and planning documents.

The Economic and Financial Management Project (EFMP) has supported a number of initiatives designed to increase transparency and participation in the budget process. Under the second EFMP, for example, a Medium Term Communication Strategy has been designed for the MFPED to improve communication with the public and all stakeholders (see Box 2).

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**Box 2: Outputs under Uganda’s Medium Term Communication Strategy**

- *A Citizen's Guide to the Budget Process* produced in 7 local languages. This booklet was circulated countrywide.
- *A Citizen's Guide to the Uganda Budget* produced annually in 7 local languages. This booklet is circulated countrywide.
- *The Budget at a Glance* published annually and a newspaper pullout that provides key budget highlights.
- *The Budget Performance Report* published bi-annually. This report gives actual budget release performance for both development and recurrent budgets and by sector. It clearly specifies which sectors spent above or below their pro-rata budgets.
- The annual budget review meeting on the national level held.
- The annual National Budget Consultative Workshop held. The workshop is attended by national and local level politicians and bureaucrats: The President, the Cabinet and Members of Parliament; District Chairpersons, Secretaries for Finance, Chief Administrative Officers, and Chief Finance Officers of all Districts and Municipalities; Permanent Secretaries, Under Secretaries and Accountants of all Ministries, and all Accounting Officers of other Government agencies. Civil society organizations and development partners also participate at the workshop.
- Annual SWGs in the development of Sector BFPs held.
- Annual training of local governments in the preparation of the LGBFP conducted. These are conducted at regional centres in Eastern, Central Western and Northern parts of the country.
- Development and maintenance of the Ministry Website. Is supporting the design and implementation of a Media Plan.

*Source: Rubimbwa (2004), “Improving Transparency of the Uganda Budget”.*
The communication strategy makes clear that effective planning is not just a technical issue: It is also about empowering communities with information. As already discussed, access to various kinds of information is critical for stakeholders to effectively perform their roles.

To what extent do weakly linked local planning and budgeting systems undermine efforts to align national and local poverty-reduction policies?

The linkage between local planning and budgeting is stronger under the Local Government Development Program. Uganda’s LGDP has provided broad-based assistance aimed at strengthening institutional capacities related to overall management and administration, procurement, financial management, planning, human resource management, and management information systems (Land and Hauck, 2003). Under the program, planning at district/municipality, sub-county and parish level takes place within a clear budget limit and stakeholders at the sub-national levels are fully informed about their budgetary entitlements. The sub-national jurisdictions must have a 3-year rolling development plan in place, and expenditure under the Local Development Grant has to be in line with council-approved annual plans. Allocation of funds to local governments is based on an objective formula (adjusted for the previous year’s performance) and local government’s budget within this financial limit. The poverty eradication focus of council plans is also a criterion in the annual performance assessment exercise, which seeks to ensure local governments comply with national regulations.

By comparison, sector development grant (SDG) modalities have tended to use very different decision making mechanisms and implementation modalities from the LDG at the local level. These mechanisms often bypassed some lower local government structures. In particular, planning for development activities locally has been characterised as fragmented. Sub-counties and parishes were only given planning figures for the LDG, with the SDG having separate planning procedures (Republic of Uganda, 2002a:18). There were additional concerns that sector development budgets did not reflect existing amount and distribution of infrastructure at local government level in relation to national targets, varying costs of investments in different area, and previous performance.

The above unfavorable situation resulted in the sector transfer policy review process, which harmonized sector modalities under the DTS and brought them in line with the provisions of the LGA and the LGDP. Planning for the SDG and the LDG has now been integrated at every level. At the district/municipality level the DTB has
integrated LDG allocations with sector grants. As with the LDG, the budget for each SDG is divided into “shares” for LCV, LCIII and LCII for planning purposes. On the basis of clear allocation criteria these grant shares are divided between the individual LCIIIs and LCIIIs in the district/municipality. The lower local governments are then provided with allocations for all grants simultaneously in the form indicative planning figures for the medium term.

Due to these innovations national and local poverty-reduction policies are now better aligned. This is reflected in the bottom-up planning process where sub-counties and parishes are provided with a budget ceiling (indicative planning figure) for each SDG and an allocation for the LDG. The allocation for the SDG is the minimum a community can invest in a given sector, whilst the LDG allocation is discretionary. Parishes first identify the investments they wish to carry out over the medium term in the sectors, and then identify activities to be funded by the LDG. If a parish thinks the allocation from a sector grant is inadequate, it can undertake any supplementary activities in that sector using funds from the LDG, or identify totally new activities. The parish also articulates priorities, which are funded out of the sub-county shares or higher.

Also, under Uganda’s local planning and budgeting system, a sub-county collects and compiles all the parish plans. Taking into account the investments identified in the parish plans, it then allocates its share of the grants to activities. Similarly the district/municipality compiles all sub-county plans and identifies further activities. Gradually, the process of harmonizing local government planning and budgeting is expected to improve the quality of plans and the quality and timing of financial accounts and reports; result in better implementation, more participatory planning, better poverty eradication focus of council plans; and improved maintenance of databases, monitoring systems and record keeping.

Given capacity constraints at local levels, how well are MTEFs suited as public expenditure tools in decentralized countries?

Over the past three years social sector expenditure on PAF programmes grew from 17 per cent to 34 per cent of the national budget. This has meant a rapid increase in resource flows to local governments, and a corresponding increase in primary service provision. PAF expenditures are tied to the achievement of PEAP Goals. Thus the majority of the increase in transfer of resources has been via conditional grants, which links spending amounts to measures of performance in terms of outputs and outcomes. (Also see section on “fiscal instruments and policies for alignment”).
In the early stages of fiscal decentralization in Uganda there was a rapid increase in the number and diversity of transfer mechanisms from central government and donors to local government. Management and financial accountability problems were encountered as a result. The profusion of different transfer systems and bank accounts that accompanied the processes of fiscal decentralization led to a concern about the different design and type of conditionality under the MoLG LGDP and the PAF conditional grant regulations, and the bureaucratic load of multiple procedures, bank accounts and lines of reporting.

In order to address these concerns, the GoU commissioned the Fiscal Decentralisation Study to examine how to streamline and harmonize the systems and processes of transferring resources to local governments. The Study, which was completed in January 2001, was the basis for the FDS referred to earlier. The objective of the fiscal decentralization strategy is:

- To strengthen the process of decentralization...through increasing local governments' autonomy, widening local participation in decision making and streamlining of fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments to achieve PEAP/PRSP goals within a transparent and accountable framework.

Many of the mechanisms provided for under fiscal decentralization, the MTEF included, were not well adapted to the decentralized framework particularly in the early phases of reforms when typically local governments had limited capacity in financial management and administration, weak bookkeeping skill resulting in poor financial accountability, little real power over the allocation resources and little involvement in decision making processes. Furthermore, the MTEF represents a top-down resource envelope consistent with macroeconomic stability and explicit strategic priorities, a bottom-up estimate of the current and medium-term costs of existing and new policies, and an interactive decision-making process that matches these costs with available resources (World Bank, 2002). In the context of the recent FDS, Uganda is taking steps to ensure the MTEF reflects grassroots priorities and involvement.
Fiscal Instruments and Policies for Alignment

The purpose of this section is to discuss how fiscal instruments are used to lend support to implementation of national plans and poverty-reduction strategies at the local level? What types of instruments are used and what challenges have been encountered? What is the nature of the instruments and policies used to promote national priorities and strategies? How appropriate are such fiscal instruments given diverse country contexts? What are the costs and benefits of these instruments? Which are recommended for use in low income countries, and why?

How are fiscal instruments used to lend support to implementation of national plans and poverty-reduction strategies at the local level?

Effective national development and poverty alleviation often hinges on improved sub-national growth and service delivery. Achieving these objectives often requires reforming the fiscal, political, and administrative framework in which sub-national governments operate among other things (World Bank, 2001). The main mechanism or instruments used to support implementation of PRS at the local or sub-national level are intergovernmental transfers. The various types of fiscal instruments are discussed below. These are used to finance both recurrent and development expenditures at the local level. The relevant intergovernmental transfer instruments are the Recurrent Transfer System (RTS) and the Development Transfer System (DTS). In general, a significant and increasing proportion of local government expenditure is financed by these transfers. This signifies growing ‘vertical imbalance’ in intergovernmental relations. Conversely, a very small percentage of local expenditure is financed from local revenue because of the narrow local tax base.

4.1 The Recurrent Transfer System

The RTS by which the recurrent budget is transferred is made up of two components—conditional grants and unconditional grants. The transfers are made on the basis of the annual Recurrent Transfer Budget (RTB). At the beginning of the budget cycle each district/municipality is presented with a draft medium term RTB. The RTB has two important elements, the structure of the local governments’ recurrent budget and indicative budget ceilings for recurrent sector
conditional grants from central government. Local governments are also informed of the indicative ceilings for the unconditional grant and equalization grant.

All local government sector recurrent budgets (i.e., production and agriculture, water, works, education, health, gender and community) excluding management and administration are financed by a single conditional grant, comprising all the sector budget lines for that sector. This is an improvement over the multiple recurrent conditional grants that used to operate within a sector before the drawing up of the FDS. The number of budget lines has also been reduced to a minimum in response to complaints from local governments. Still under the RTS, the conditional grant can be supplemented by local revenue, the equalization and unconditional grants. The budget for management, administration and other services comprising wage and non-wage components is funded by the unconditional grant, local revenue, and donor funds.

Combined recurrent transfers are made monthly to the grant collection account. Chief Administration Offices then transfer to individual single sector recurrent accounts. Sector Recurrent Budget (SRB) is split into Sector Budget Lines (SBL). The number of SBL is established by sector policy reviews. The level of flexibility is uniform for every SBL. Once budget is read local governments cannot change grant allocations to SBL. Expenditures on budget lines are tracked through the vote book as opposed to through separate bank accounts. Districts Report Quarterly on outputs and expenditures. Expenditures reconciled with bank statement.

4.1.1 Local Budgetary Flexibility: The amount of discretion available to formulate and allocate local budgets is important for determining the degree of decentralization. Under the sector recurrent budget allocations:

- Draft RTB allocations are prepared by central government at the beginning of the budget cycle and distributed to local government. Allocations to sectors and SBL are based on recommended levels of service delivery given overall resource availability.

- Minimum allocations permissible for a sector grant by the local government are set by central government at the beginning of the budget cycle and are a fixed percentage of the recommended allocations. Sub-national governments, having gone through a consultative budget process the previous year, are
free to allocate from one SBL to another within a sector, and/or away from one SRB to another (excluding management and administration) provided the minimum allocations are met for each sector budget and SBL, and the total RBT (the sum of all sector budgets) remains unchanged.

- Amended allocations to sector grants are prepared by the local government as part of their LGBFPs during their budget process. These include additional allocations to sector (budget lines) from other revenue sources. If the allocations are below the minimum permissible the amended allocations will be rejected and the draft allocations recommended by central government will prevail.

4.1.2 Increasing Local Government Autonomy: Local governments, which make progress in strengthening their own capacity, are subject to fewer central government controls. The RTS provides a framework for increasing the autonomy local governments have over allocating resources and in implementation, as local governments’ capacity increases over time.

There are two main ways this can be done within the context of the RTB and RTS:

- Firstly, an increasing proportion of local governments RTB can be provided as discretionary funding in the form of the unconditional and equalization grant.

- Increased autonomy in budgeting for sector (conditional) grant funds within the RTB. The minimum sector budget and budget line allocations can be withdrawn. Local governments would be provided with a total Recurrent Sector Grant Budget, and local governments would propose allocations to SBLs during the budget process.

A gradual reduction of central government control is linked to improvements in capacity and performance of individual local governments. This allows an incremental movement towards a budgetary planning system whereby districts/municipalities propose their recurrent transfer requirements at an earlier stage in the budgetary process, with the national budget and sectoral allocations built-up more from local government proposals.

4.2 The Development Transfer System

Like in the RTS, all development transfers to local governments are made within a single DTS based on the annual Development Transfer
Budget (DTB). The system features an integrated, bottom up planning for all local development activities whether funded by sectoral grants or discretionary grants.

Stable and predictable intergovernmental transfers are important for enabling local governments to plan their budgets over the medium term (ensure a match between investment and recurrent costs, as well as create incentives for local revenue mobilization. Thus, at the beginning of the budget cycle local governments are provided with a draft DTB. The DTB is divided as follows:

- The Local Development Grant Budget, provide discretionary development financing to lower local governments using LGDP modalities.v
- Sector Development Grant Budgets provide funds for specific sectoral investments, whose guidelines are reviewed to make them more in line with LGDP modalities.

This structure is discussed and agreed with local governments early before the beginning of the budget cycles. The draft DTB provides indicative ceilings for the medium term. Different levels of local government are given the responsibility for planning for a specific proportion of sector grant allocation, which vary from sector to sector, and this is indicated in the DTB structure.

The discretionary Local Development Grant (LDG) provides reasonable flexibility for local governments to ensure that overall, investments are made in line with local priorities, provided that the correct balance of allocation of funds between sector development grants and the LDG in the DTB is found.

4.2.1 Budget Norms: Local governments qualify to access the LDG once they have achieved specified minimum access criteria. These criteria are derived directly from the requirements set out in the Local Governments Act and the Local Government Finance and Accounting Regulations 1998. Local governments are required to co-finance the development funds received with 10 per cent contribution in cash, in addition to scheme-specific local contributions from communities.

Central to the LGDP design are the annual assessments of districts/municipalities, sub-counties/divisions and town councils against the pre-set governance criteria (the so-called ‘minimum access conditions’) and performance criteria. The minimum conditions determine whether a
district/municipality or a sub-county is eligible to access the LDG. The performance criteria, assessed in retrospect, determine whether a local government is eligible for a reward or penalty (i.e. whether the amount of the Development Fund is to be increased or decreased for the next financial year).

The minimum conditions (access criteria) include:

- Development planning capacity (e.g. availability of a council-approved District Development Plan and functional planning committees);
- Financial management (e.g. proper maintenance of accounts, adherence to procurement regulations);
- Technical capability (e.g. capacity to supervise engineering works); and
- Programme specific conditions (e.g. 10 per cent co-financing)

Districts/municipalities which do not meet the minimum access criteria can still benefit from the Capacity Building Grant (a separate funding-line under LGDP) in order to assist them qualify for development funding in future.

Districts/municipalities and sub-counties operate under incentive and penalty system linked to good governance and service delivery. Those that perform well against specified performance criteria receive an increase in their allocations in subsequent years (an additional 20 per cent), whilst those that perform poorly have their investment funds reduced by 20 per cent.

Under the LDG all service delivery functions within the LGA [Schedule II, Part 2], with the exception of security, are eligible for funding. Local governments can choose to fund activities outside the PEAP priorities, such as council buildings, but if expenditure on non-PEAP-priorities exceeds 20 per cent, this leads to sanctions in the form of decrease in allocation in subsequent years. The investment menu is mainly capital items, but some recurrent expenditure is allowed as long as it is related to investment and is less than 20 per cent of the total budget.

Finally, local governments are authorized to use the investment fund for investment planning and monitoring (‘investment servicing costs’) up to a maximum of 15 per cent of the total fund. The use of LGDP funds appears unconditional in that funds are not tied to a specific sector, but local governments have to adhere to the overall planning procedures and co-funding rules. Importantly, they must meet the annual minimum criteria and performance criteria.
4.3 Issues and Options in Poverty Reduction under Decentralization

Uganda’s ambitious program of decentralization has recorded significant progress. However challenges remain.

4.3.1 Administrative Capacity:
There is evidence showing that the staffing situation in local authorities is improving. Before decentralization, staff working in district offices were recruited and posted by the centralized Public Service Commission. Local governments are now required to recruit their own staff using the District Service Commissions. The decentralization of staff recruitment initially exacerbated manpower gaps within the local governments as most people were reluctant to work exclusively for one local government with no chances of transfer to other places and limited career opportunities. Conversely, some districts such as Mbale have a very big staff establishment hence exerting substantial pressure on the wage bill (Luwangwa, 2004).

Another problem related to staff management has to do with failure to attract qualified personnel mainly due to isolation caused by poor infrastructure and in some cases insecurity. Local governments that are isolated also lack access to some of the key services such as banking services and the services from the Office of the Auditor General (OAG). It is very difficult for districts to enter into inter-local government sourcing arrangements for the posts of Chief Finance Officer or Chief Internal Auditor since these are very important and full time jobs. However, experience has shown that inter-local government arrangements for sharing staff can be achieved for such professions as engineers, who can be shared by two districts with a strong backup support of site supervisors (ibid).

4.3.2 Financial Capacity and Management:
Most local governments suffer cash flow problems due to inadequate locally collected revenue. Given the small size of the economic base in most districts, the share of revenue raised at sub-national level also tends to be small. Use of the meagre local revenue collected is further constrained by the requirement that local governments make a mandatory 10 per cent deposit of the expected donor/LGDP contribution to their development budget. As result, many local governments are reported to be unable to pay salaries of their employees on time. The issue of salary arrears is a serious threat to local governments’ capacity to effectively discharge its service delivery responsibilities because of
its demoralizing impact on staff. However, most books of accounts are kept and updated. The omitted books are commonly asset registers and journals. While attempts are currently being made to budget for operations and maintenance (O&M), in some cases it is still being done as a block rendering it difficult to break down (and later to use) for individual activities. This makes it difficult to keep track of recurrent cost associated with each investment (ibid).

*How appropriate are such fiscal instruments given diverse country contexts?*

Generally, Financial Management Committees are the most active in local governments. The committees meet quite regularly and the proceedings of the meetings are well documented. Internal audit sections are however, very poorly facilitated. Some sections still lack the appropriate number and quality of staff. Despite these shortcomings, the compilation of internal audit reports has generally been improving. All audit reports compiled include all the lower level local governments, although these jurisdictions never get a feedback on the audit exercise. The reports themselves also still remain largely of poor quality with no clear specified action points (ibid).

Another challenge relates to the high costs of maintaining multiple districts and layers of government. This needs to be carefully compared with the benefits of improved service delivery. There is also need to enhance the vertical accountability of local councils. This could involve helping the constituencies to better hold their councillors to account and increasing the effectiveness of councils to carry on government business. Particular attention is needed to support women councillors. Finally, improving the planning process both in terms of its linkage with the national budget but also in terms of how well it responds to local needs remain a challenge.

When viewed from a broad perspective (i.e., from formulation, through reforms to the current phase), the inevitable conclusion is that the fiscal instruments are getting better. The 1995 Constitution provided for three types of intergovernmental grants: block or unconditional grants, conditional grants and equalization grants. In the early phase, fiscal decentralization was dogged by a number of challenges such as partial or incomplete decentralization of the development budget, declining local revenue and heavy dependence by sub-national governments on fiscal transfers from the centre, weak and inefficient revenue collection systems, limited capacity and lack of incentives at local government level to attract professionals, low
absorption capacity, etc. Such challenges are inevitable and tend to accompany the process of public expenditure management reform especially in a country such as Uganda, which emerged from many years of bad governance yet recently has been experiencing rapid economic growth.

As already discussed, some of these challenges still remain. However, despite many hurdles Uganda’s fiscal decentralization has made significant milestones. Notable ones include an extraordinary rate of growth in social sector expenditure, with expenditures on PAFvi programs growing from 17 per cent to 34 per cent of the national budget (Republic of Uganda, 2002a). But the rapid increase in resource flows to local governments, and a corresponding increase in primary service provision have not been without a glitch. Concerns were raised both at central and local government level about the growth in the number and diversity of instruments or transfer mechanisms embedded in intergovernmental fiscal relationships. It was in this context that the current FDS was introduced Uganda.

For countries in similar situation, the success of poverty reduction in a decentralized context is closely linked to the system of intergovernmental fiscal transfers from central to local governments, allocation of expenditure responsibilities and authority to raise revenue locally. As Uganda’s case demonstrates, there have been significant improvements in primary education and health services under the existing local development grants. Hence, the thrust of the FDS is to rationalize the operation of the existing instruments. This seems to suggest that continuous, broad-based improvement of fiscal instruments is a recipe for successful implementation of PRS in a decentralized context.

What are the costs and benefits of these instruments?

Measuring the costs and benefits of existing instruments is a complex task. Using three general indicators, economic efficiency, macrostability and distributional outcomes, we find that Uganda’s fiscal and budgetary reform measures have yielded positive results in terms of streamlining its budget, improving revenue collection and prioritizing expenditure. As Table 2 shows, almost all instruments have had positive impact on, or improved, allocative:
Table 2: Cost, Benefit and Impact of Transfer Instruments
Note: CG (Central Government) and LG (Local Government)

<table>
<thead>
<tr>
<th>Grant Type</th>
<th>Benefit</th>
<th>Cost</th>
<th>Impact</th>
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| Conditional  | 1. Gives CG more control over LG. 2. Access conditions ensure LG financial compliance with mandated functions and services | 1. Constrains LG to implement their priorities with little discretionary control over recurrent budget funds. 2. Grant formula can lead to less equitable sharing among local governments. 3. Strains CG and LG capacity. | Allocative Efficiency High  
|              |                                                                        |                                                                     | Macroeconomic Stability Positive  
|              |                                                                        |                                                                     | Income Redistribution Positive |
| Unconditional| 1. Allows LG relative autonomy and flexibility in decision-making      | 1. Because of their discretionary nature, in weaker LG they can be used to support inappropriate and inefficient structures. 2. Strains CG and LG capacity. | Allocative Efficiency Neutral  
|              |                                                                        |                                                                     | Macroeconomic Stability Positive  
|              |                                                                        |                                                                     | Income Redistribution Positive |
| Equalization | 1. Potentially an effective instrument for redistribution.              | 1. Politically sensitive and technically difficult to implement. 2. Strains CG and LG capacity | Allocative Efficiency Positive  
|              |                                                                        |                                                                     | Macroeconomic Stability Positive  
|              |                                                                        |                                                                     | Income Redistribution High |
efficiency, macroeconomic stability and income redistribution. But there have been costs too. Capacities within central government ministries (MFPED and MoLG), accounts and internal audit units at districts/municipalities, and the OAG in terms of staff, skills, facilitation, are not fully developed to effectively carry out the challenges of implementing national plans and poverty-reduction strategies at the local level. Often, the thinly spread staff is overstretched.

Although the equalization grant was clearly mentioned as one of the financial assistance scheme in the 1995 Constitution and the Local Government Act 1997, it has been politically very sensitive and technically difficult to implement. Nearly all districts claim that they can be the legitimate recipient of the equalization grant, which was intended to be provided for those districts that fall under the national average of poverty level and public service provisions. In spite of these challenges, the first release of the equalization grant in the FY 2000/01 was an important step towards making more resources available to local governments. In Uganda where regional disparities are significant, especially between the north and the south, the equalization grant is an important instrument for ensuring lagging regions receive more development resources.

**Which instruments are recommended for use in low income countries, and why?**

The impact of fiscal instruments tend to be country specific and cannot be generalized for low income countries let alone decentralizing countries. What is appropriate for small, densely populated, country like Uganda is not necessarily suitable in a large, sparsely populated country like Niger. Any recommendation given is only tentative or indicative. The other complication arises from the fact that there are different types of transfer instruments, and the problem is precisely to choose the most appropriate as a function of its impacts upon policy objectives (e.g. macroeconomic stability, income redistribution, etc.).

In general, despite their political sensitivity and technical difficulty of implementation, equalization grants are good mechanisms for low income countries. As Prud’homme (2001) has argued, other things being equal a more decentralized system will tend to increase disparities such that the initially poorer local jurisdictions will have lower tax bases (whatever the taxes allocated to them), and therefore lower resources, which means lower levels of public services, that will tend to evict people and activities, making these areas even poorer. Such a
tendency can be corrected, at least in part, by a transfer mechanism (equalization grant) that gives more resources (redistribution) to poorer jurisdictions. This is even more so in low income countries where income inequalities between persons and between regions are more pronounced in the first place, notwithstanding the political tensions that might arise.

In the context of decentralization, the transfer of responsibilities and resources is neither total nor complete. Everywhere, central governments retain some form of control over what local governments do, in the areas of expenditures, borrowing, taxation, budgeting, accounting, reporting, audit, etc. This is what makes conditional grants attractive in most decentralizing contexts. Conditional grants are relatively more likely to be used on national priority areas such as poverty reduction strategies. Thus conditional grants can be recommended on allocative efficiency ground.

Because of their overall positive impact on several domains, conditional, unconditional and equalization grants can justifiably be used in low income countries. In a decentralized context, the amount of resources accruing to local governments is often inadequate to keep the administration alive and provide basic public services so badly needed by the mostly poor people. Under these conditions, intergovernmental transfer is critical for poverty reduction.

**Monitoring and Evaluation**

The final set of questions that arise in development planning in decentralized contexts is the responsibility for target setting and monitoring and evaluation of performance. Monitoring is used in Uganda to assess how public policies are impacting on poverty.

*To what extent are local government targets aligned with outcome indicators?*

In a survey of 250 government-aided primary schools and 100 public clinics, for the period 1991–95, Ablo and Reinikka (1998 in Kayizzi-Mugerwa, 2002:6) found that fewer resources than actually despatched reach the local level. This is partly because a per cent of the money is used up as overhead at the various levels. Low absorptive capacity of
sub-national governments and outright corruption are other plausible reasons. For example, it has been noted that until very recently the GoU has not been able to follow-up and monitor the extent to which the various reforms at the local level have been internalized and to devise the means to assist those areas where implementation has been slow and intransigent (Kayizzi-Mugerwa 2002). This situation has not changed much judging from recent assessments of the efficacy of PAF. The second PEAP/PRSP review (Republic of Uganda, 2002b), for example, highlights difficulties in the delivery of important health services and inefficiency in the water sector, where significantly increased funding has led to modest increases in annual outputs.

For all sectors the report emphasizes the continuing challenge of maintaining and even improving the quality of service provided, and especially in areas serving poorer communities. The report further notes that while health user fees were abolished and access increased, service quality has deteriorated. Similarly, in education, the UPE reforms have resulted in large class sizes and unfavorable pupil-textbook ratios. Gains in the water and sanitation sector have occurred at the cost of low value for money. Although the PRSP Progress Report highlights the progress made in controlling the AIDS epidemic, the 2000/01 UDHS reveals that only about half of the respondents are aware of the ways to fight the disease through changing sexual behavior.

The preliminary Participatory Poverty Assessment (PPA) results raise a number of issues with far-reaching policy:

- As in the first survey, the public applauds the introduction of UPE while pointing to the many problems associated with the quality of education provided. The public attributes poor education quality to large pupil to classroom ratios, general indiscipline, promotion of children to higher grades irrespective of whether they have passed exams; late arrival of funds, problems in accessing different UPE grants and misuse of funds.

- The levying of Graduated Poll Tax (GPT), its assessment and collection methods and the existence of multiple trade taxes and dues have become increasingly unpopular within local governments’ jurisdiction. GPT assessment and collection methods are strongly criticised with complaints about unfair assessment and in some cases receiving tax tickets without having knowledge about being assessed. GTP is
perceived to be a regressive tax. There is lack of information about the systems and procedures for appeal and in some cases the procedures are said to be corrupt, ineffective or too costly.

- Confusion created by politicians as to whether taxes need to be paid and the amounts due are also frequently cited as reasons for defaulting on graduated tax payment. Local government officials report a crisis in raising local revenue, compromising their ability to co-fund projects and therefore access government grants, as well as the high cost of tax administration. Other local taxes, in particular market dues, are perceived to be hindering trade and business. Like graduated tax, they are widely resented because of the apparent lack of benefits from the revenue collected in terms of improved service delivery.

- In terms of the functioning and accountability of local government structures, the first survey found that village local councils (LC I) were widely respected and appreciated. In the second PPA, the village local councils are criticized in many research sites for functioning poorly. Findings about higher local council levels echo those of the first survey. The roles and responsibilities of these councils are not well known and the councils are perceived as distant, non-responsive to community needs and a hindrance to community development due to corruption and lack of contact with communities. However, where higher leadership is strong, it is seen as a driving force in improving people’s lives.

- The use of grants and the implementation of programs over which village and sub-county councils have control, such as the non-sectoral grant under the Plan for the Modernisation of Agriculture (PAM), the restocking program and the “Entandikwa” credit scheme, are widely criticized. These grants and program implementation funds are widely said to be benefiting the better off and the councillors holding office as well as their relatives. These findings have implications for the implementation of fiscal decentralization (Republic of Uganda, 2002c).

Are local governments responsible for their own monitoring and evaluation?

Local governments are responsible for their own monitoring and evaluation (M&E) to a limited extent.

The Executive Committee of District Councils (LC V) is responsible for monitoring the implementation of council programs, central government policies and monitoring and co-ordination of non-governmental organization (NGO) activities. However, missing links in
the process of policy implementation, which have to do with weaknesses in information flows, and the need for budget response to local priorities and political accountability still present a challenge to local government M&E efforts (Robb, 2002).

As local governments’ autonomy grows, M&E will be vital tools for ensuring a stable and predictable intergovernmental transfers. In terms of the hard budget constraint embedded in the recurrent and development transfer systems, local governments are expected to account for conditional grants to qualify for future transfers. This will put pressure on districts/municipalities to monitor lower level local authorities, say through the development planning process. In spite of lingering problems such as complex district planning processes, difficulties in financing district plans, and the limited capacity at district level (Robb, 2002:165), M&E enables local government to plan their budgets over the medium term. It also creates incentives for local revenue mobilization since local authorities would be in a better position to justify increasing the percentage of local expenditure financed from local revenues if they have hard data to support their budgets.

What is the role of the central government in monitoring and evaluation, especially in cases of low capacity local governments?

Uganda’s Poverty Monitoring and Evaluation Strategy (PMES) was unveiled in June 2002. PMES is designed to ensure effective implementation of the PEAP/PRSP by providing timely information to policy makers on what really works to reduce poverty and how to achieve this. The PMES is the national monitoring and evaluation framework guiding sectoral management information systems, district monitoring and evaluation systems, and the Poverty Reduction Support Credit (PRSC) monitoring requirements. The major sources of information for the monitoring strategy are the various surveys conducted by the Uganda Bureau of Statistics (i.e., the Uganda Demographic and Health Survey [UDHS], the Uganda National Household Surveys [UNHS], and the Uganda Population Census), which are complemented by qualitative data from the PPAs.

According to Robb (2002), the purpose of the first Uganda Participatory Poverty Assessment Project (UPPAP) was to make national and district planning processes more participatory. The decentralized context in Uganda required that the UPPAP be
designed to produce findings relevant at the district level as well as the national level. Accordingly, the UPPAP had a national and district focus. Research teams in each district included representatives of the district administration. Strong linkages were made with district planning units, and findings were fed back to district administrative and political leaders.

Under the LGDP, every year the Project Management Unit of the Ministry of Local Government conducts the National Local Government Performance Assessment, which feed into the national budget process. Other national level actors involved in the NLGPA include Local Government Finance Committee, the Local Government Associations, MoLG, MFPED, and other key sector ministries including that of education, health and agriculture. These yearly evaluations are important because the recurrent and development grant allocations in the Development Transfer and Recurrent Transfer budgets for the following financial year are based on their outcome.

By clearly assigning responsibilities for functions to different local government level, the central government also plays an important albeit indirect M&E role. Such division of labour serves to ensure that service is delivered and responsibilities do fall through the cracks. This is critical for implementation of poverty reduction strategies that involve construction since, this activity take the biggest share of all investment funds sent to local governments in Uganda. Yet, about 20 per cent of the districts do not have engineers, a situation which bacons for central government intervention, particularly in terms of providing site supervision (Luwangwa, 2004).

*Can national governments intervene in problematic cases? If so, how?*

As the parent ministry, the MoLG plays a supervisory role and may call on appropriate bodies to conduct investigations into alleged irregularities in the activities of any particular sub-national government. In terms of Section 2 of the Local Governments Act (1997), the Minister has powers to call for such investigations. The Minister may intervene in a local government, as can the Resident District Commissioner (RDC), the Inspector General of Government (IGG) and the Auditor-General.

There are several grounds for intervention by national government in local government affairs. In case of (financial) irregularities, the Minister or the RDC--the representative of the President in
each district--can convene a meeting of the council and provide guidance to improve the situation or call the IGG (responsible broadly for the elimination of corruption and abuse of office in the public sector) or the Auditor General to investigate those allegations. The Minister and the RDC are not empowered to conduct investigations themselves, but the Minister may instigate a Commission of Inquiry. The findings of the investigations either exonerate the individual or put them before the appropriate authorities, for example, the courts, for trial. In extreme cases, in which a district/municipality can no longer operate, the Constitution empowers the President to assume executive powers for that district (Constitution of the Republic of Uganda, 1995: Sec. 225 [1]). So far, no occasion has arisen when this was necessary.

Clearly, a high level of accountability is a prerequisite for the success of decentralization. For example, transparency and accountability demand the setting up of District Service Commissions (DSC), Tender Boards and Local Government Public Accounts Committees (Semakula, 1996 in Kayizzi-Mugerwa, 2002). While most districts/municipalities have established these institutions, records are still generally poorly kept and in many cases not at all. Such performance lapses are partly due to serious lack of capacities at the local level or outright corruption. In the event that corruption is suspected, the LGA empowers the Minister of Local Government to intervene.

However, the establishment of the relatively autonomous DSC presents a dilemma for central government intervention in local government affairs. While in theory the Minister for Local Government can ‘intervene’ in the case of an errant local authority, s/he can only recommend disciplinary measure for local government personnel to the DSC. Unlike in the past when the Public Service Commission employed all government employees, DSCs are now wholly responsible for local government staff. This means that a local government can defy a ‘directive’ issued by the MoLG. Under these circumstances, central government intervention is academic.

Besides, legal and political realities are very different. In Uganda and most other developing country contexts where patronage politics plays an important role in defining center-local relations, there is a high incentive for central government to intervene in local government business. However, such intervention are subject to the dynamics of local politics. Designing institutions under such conditions is
made complicated by interlocking political, social and economic ties, which are often embedded in local histories. The role of Traditional Leadership in Uganda is a good example.

In Uganda, as in most other developing countries with a strong culture of traditional leaders, Kings (in the case of Uganda) and Chiefs (e.g., in South Africa) are a very influential if not formal/legal role to play in local government matters, including but not limited to provision of services. While both central and local political leaders, including the Provincial Administration wield bureaucratic power, Traditional Leaders command respect and authority among their subjects. The converge or divergence of these two systems is critical to the success of intergovernmental relations. The impact of such dual systems of local governance, which traditional and elected leaders represent, on poverty reduction in decentralized polities needs careful examination.

Lessons and Suggested Policy and Institutional Responses in Decentralized Polities

On Planning

- As the Ugandan case shows, priorities set out in the PEAP/PRSP play an overarching strategic role of guiding planning at sub-national level. There is evidence that setting the PEAP/PRSP as the overarching strategic framework serves as a useful role of integrating local and central government planning efforts.

- Uganda’s experience shows that the PRSP can build on and improve already existing frameworks for poverty reduction. This provides a “good practice” to inform countries in other regions where the link between the PRSP process and pre-existing planning documents are relatively poor (DFID, 2003a and 2003b).

- Uganda’s decentralization and PRSP processes are highly institutionalized. This contrasts with countries where government opinion of PRSP’s role as a comprehensive national strategy is somewhat open to question (DFID, 2003).
Like the case of Bolivia, Uganda’s experience shows that securing ‘by-ins’ for broad-based reforms is relatively easy where there is broad agreement and institutional frameworks for supporting PRSP in the context of decentralization.

- Developing a fiscal decentralization strategy is important for harmonizing central and local government planning and budgeting cycles.

### On Expenditure Programming

- Uganda’s experience with using the MTEF to integrating national and sub-national planning processes for improving poverty reduction strategies shows that the use of ‘hard budget constraints’ is necessary to match spending with overall resource availability, greater impact on poverty, and macroeconomic stability.

- A fiscal decentralization strategy is necessary to operationalize systems and processes of transferring resources to local governments.

- The effectiveness of the MTEF depends on broadbased public expenditure reforms targeting strengthening capacities for planning, budgeting, financial management and audit at both central and local government level. Lack of a MTEF in some countries is a major constraint to the prioritisation of the budget around poverty reduction goals. In Uganda where PEAP/PRSP is considered as the comprehensive development framework, its links to the budget is very clear and PRSP initiatives are mainstreamed in the budget.

### On Fiscal Instrumentation

- Introducing Budget Framework Papers at local government levels can result in better budgeted for revenues. It can also lead to congruence between local programs and nationally identified priorities. However, the pace of fiscal decentralization should be balanced with capacity at local government during implementation.

- If rationalized, fiscal instruments can be effective means of transferring resources from central government to local governments. Conversely, uncoordinated fiscal transfers pile pressure on sub-national governments.

- Effectiveness of the MTEF is enhanced when accompanied by public expenditure management (PEM) reforms aimed at ensuring efficient and
effective use of public resources through increased transparency and accountability.

- Unconditional, conditional, and equalization grants can have positive impact on allocative efficiency, macroeconomic stability and income redistribution.

**On Monitoring**

- The Ugandan experience shows that regular and comprehensive national local government performance assessment is a useful monitoring tool to ensure compliance by local governments of agreed policy priorities and strategies.
- The value of monitoring is enriched through participation. Experience from sub-Saharan Africa suggest that civil society participation can add considerable value to PRSP processes and policy processes more generally, and can contribute to more responsive behavior on the part of donors and governments (DFID, 2002).
- Implementing poverty reduction in decentralized polities, where civil society is likely to be more vibrant, stands to benefit from broader participation.
- Continuous monitoring and tracking of public expenditure goes a long way to ensure that the MTEF process not only look at planning and projecting expenditure, but also at efficient utilization of the resources.
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NOTES

i The revision of the PEAP in 2000 drew on the progress made since 1997, including the development of sector-wide approaches (SWAps), the participatory research carried out by the Uganda Participatory Poverty Assessment Project (UPPAP), the constraints identified in the Poverty Status Report (PSR), the development of costing and monitorable indicators in many sectors, and the consultations which have been held for the 2000 PEAP itself. It also places a greater emphasis than the 1997 document on the actions which promote private sector development and therefore contribute indirectly to poverty-reduction (Ministry of Finance, Planning and Economic Development Website: [www.finance.go.ug](http://www.finance.go.ug)).

ii Although the targets of public expenditure have been declared, government’s ability to scrutinize the public sector investment program, with a view to reducing it to manageable size remains a challenge. In reality, paucity of resources and the political economy of resource allocation have tended to make the achievement of development priorities very difficult (Kayizzi-Mugerwa, 2002:4).

iii Kullenberg and Porter (1998) define the District Development Project as not a typical stand alone donor program. It tests mechanisms and procedures for decentralizing capital budgets to the lowest feasible level to provide services mandated in the Local Government Act of 1997. The project is fully integrated within the local government system so that government can draw lessons (both positive and negative) to inform national policy of the full-scale decentralization of development budgets scheduled to occur over the next three to five years.

iv This process is discussed in detail under “Linking Plans and Budgets”.

v In 1995, GoU reached agreement with International Development Agency (IDA) and UNCDF to pilot devolution of discretionary development budget-support to 5 districts through the District Development Project (DDP). This was designed to test the anticipated Local Governments Act and create a “policy experiment” for developing procedures for decentralised planning, financing and service delivery. The experience of the DDP formed the basis for design of the LGDP.

vi In 1998, in the context of the medium-term expenditure framework the government introduced a Poverty Action Fund which was ultimately intended to include all spending on directly poverty-reducing public services. The share government and donor spending going to the programs included in the PAF has increased substantially since 1997 (World Bank, 2000).

vii Macroeconomic stability (growth, inflation, interest rates, etc.) is also impacted by the extent and form of fiscal decentralization.