Persistent Impediments in Public Financial Management: Where should focus shift to?

Overview

At the heart of Public Financial Management (PFM) is the need for prudent financial management geared towards effective service delivery. Efforts by government have entailed, reforms in the law such as the Public Finance Management Act (2015), the Public Finance Management Regulations (2016), and amendments to the public procurement and disposal law.

The accompanying financial management framework to support execution of the budget include; i) Early completion and discussion of the budget that has led to budget transparency, and involvement, ii) Timely release and access to funds by the implementing Ministries, Departments and Agencies -MDAs iii) Timely submission of progress and accountability reports by the MDAs and Local Governments (LGs), iv) Absorption of funds availed by implementing MDAs and LGs, and v) Monitoring the implementation of the budget by oversight institutions.

The expenditure focus areas have over the last four years been agriculture (food security), health, education and infrastructure (roads and energy). The budget allocations and actual outturn to these sectors has tended to grow positively, however persistent challenges to public financial management have been registered continuously over the years regardless of the budget outturns. These have taken the form of: inadequate budgets to implement planned activities, mischarges, growing domestic arrears and reliance on supplementary budget requests by the MDAs &LGs.

This brief analyses the PFM practices and persistent challenges experienced by MDA&LGs based on the focus sectors that have experienced high budget outturns in the last four Financial Years (FYs). The brief proposes a shift from focusing on the expenditure side of the budget to improved revenue collections as a plausible remedy to PFM weaknesses.

Key Issues

- Notwithstanding the efforts by the Government of Uganda (GoU) and the high budget outturns, the MDAs and LGs are experiencing PFM related constraints such as; inadequacy of the budgets, mischarges in transactions, overarching domestic arrears, and increasing reliance on supplementary budget requests.
- There are growing cases of mis- declarations and out right instances of tax evasion by the public resulting into revenue losses.
- Lack of awareness among the public on their role in collecting certain taxes, for example Withholding Tax (WHT) on professional services.
- Low tax collection of the Gross Domestic Product (GDP) of 14% against an optimum of at least 18%.

Introduction

Public Finance Management (PFM) refers to best practices agreed to by government in the application and utilization of public funds to result in the desired service delivery. It impacts on revenue and expenditure and is supported by a legal and regulatory framework.

The GoU's release performance over the last four financial years (2013/14 - 2016/17) has been very good considering that for each of the respective years, the focus sectors have achieved at least 98% release performance of their approved budgets.

Additionally, GoU has been deliberate in rolling out strategies to enhance compliance in public financial management including strengthening oversight functions by different stakeholders such as Parliament, Inspectorate of Government, Civil Society Organizations.

Measures by Government to augment PFM practices

The GoU has put in place a number of measures that broadly entail;

i.) Reforms in the law that created the Public Finance Management Act (2015), as well as the Public Finance Management regulations (2016). These have increased transparency of the budget through, for example, holding discussions and passing the budget before commencement of the fiscal year. This has improved the timeliness of funds and implementation by MDAs and LGs.

ii.) Efforts to align the PFM Act (2015) with the Local Government Act (2007), and other operational laws regarding public procurements have been intensified.

iii.) Other developments have been structural in nature such as; adoption of the Programme Based Budgeting to focus resources on outcomes, rolling out the Integrated Financial Management System (IFMS) tier 1 with embedded controls to all MDAs and LGs. The roll out and adoption of the Programme Based Budgeting System (PBS) with efforts to interface with the IFMS, Integrated Personnel Payroll System (IPPS), Aid Management Programme (AMP) and a procurement module incorporated, are all geared towards reinforcing efficiency in public finance management.

Recent evidence shows growing improvement in budget performance. According to the report of the Auditor General for the year 2017, out of 553 MDA&LGs audited, 501(90.6%) had unqualified opinions (clean opinions), 50 (9%) had qualified opinions and 2(0.4%) had disclaimers - an improvement from the performance for the year 2016. The Public Expenditure and Financial Accountability (PEFA) report 2017 alluded to improved transparency of the budget.

However, there are high incidents of recurring lapses in the financial management of the budget. A summary of the expenditures of the focus sectors shows lapses in budget allocation, reporting and accountability inspite of the high budget outturns.

Table 1 shows the cumulative GoU budget performance of the five priority sectors for the FYs 2013-2016/17 in Ug shs billions.

Table 1: Cumulative Budget Performance for the Priority Sectors

Sector	Approved GoU Budget	Release/Outturn	Expenditure	% of budget released
Agriculture	1,649	1,698	1,682.5	103
Education	7,146	6,999.83	6,949.08	98
Health	3,202	3,171.97	3,103.45	99
Energy	3,436	1,703.28	1,695.30	50
Roads-UNRA	7,946	7,767.10	7,674.29	98

Source: Approved Estimates of revenues and expenditure and Annual Budget Performance Reports FYs 2013-2016/17

The Budget Monitoring and Accountability Unit findings and other literature have overtime shown the following PFM constraints from the implementing MDAs and LGs.

a) **Inadequacy of budgets for operations**

The inadequate budgets for operations have led to accumulation of arrears. For instance, the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) had arrears amounting to Ug shs 280 million by 30th June 2017. The Emergency Construction and Rehabilitation of Primary Schools Project in the Education and Sports Sector achieved only 31.1% of the planned output targets due to limited finances that were disbursed to only 8 schools out of the 18 planned.

In the Health Sector, district hospitals had unpaid Umeme bills (Apac hospital – Ug shs 219m, Nebbi Hospital – Ug shs 153m, Kiboga Hospital – Ug shs 126m, while Masindi Hospital had Ug shs 120m) among others.

The funding provided for industrialization projects was too low to achieve the sub-sector objectives- for example under the Kiira Motors Corporation, only Ug shs 10bn was provisioned in FY 2016/17 against a requirement of US$33 million and Ug shs 3.6bn was released. Only Ug shs 4.2bn was budgeted for development of industrial parks across the country in FY 2016/17.

b) **Non-compliance to public finance provisions**

Despite the provisions in the Public Finance Act 2015, institutions still have mischarges. The Auditor General's report for the FY 2015/16 indicated mischarges of Ug shs 168bn which was 1.66% of the approved budget to MDAs & LGs, and Ug shs 83.86bn (0.76% of the budget) in the FY 2016/17. This, according to the Auditor General leads to misreporting, undermines the budgeting process and intentions of the appropriating authority. The Auditor General further states that "the practice has continued despite my recommendations in the previous reports". Also in FY 2016/17, the Office of the Prime Minister without authorization reallocated Ug shs 10bn for procurement of oxen. The funds were reallocated as payment for oxen acquired in FY 2015/16 because funds had been diverted then.

In the Education and Sports Sector, some LGs diverted schools' inspection funds. Under the MAAIF, the National Farmers Leadership Centre (NFLC) generated Ug shs 764.788m as Non-Tax Revenue (NTR) during FY 2016/17, of which Ug shs 721.145m (94.29%) was by the donor agency (Korean International Cooperation Agency) by 30th June 2017. However, only Ug shs 43,643,407 was transferred to the MAAIF account.

c) Unrealistic balance between capital and recurrent expenditure

There is an overlay focus on capital expenditure at times to the detriment of operations that are supported by recurrent budgets. For example, despite the fact that the energy sector had one of the highest budget allocations (Ug shs 2,377.2bn in FY 2016/17 and Ug shs 2,585.09bn in FY 2017/18); the recurrent budget allocated to the sector to support its activities is low (Ug shs 3.33bn in FY2016/17 and Ug shs 15.09bn for FY 2017/18). This scenario is creating challenges in implementation of the development budget.

d) Growing domestic arrears

According to the Auditor General's report 2016, domestic arrears increased from Ug shs 1.39 trillion to Ug shs 2.25 trillion and they continue to grow, for example, the judiciary continues to register domestic arrears in respect of rent for office premises.

e) Supplementary budget requests. From the MFPED Semi-Annual Performance Report 2018, 90% of the 10 focus sectors monitored had obtained supplementary budgets by 31st December 2017. This further points to intense pressure on the sector and vote budget allocations.

Implications: The above mentioned challenges point to questions of how much revenue is available to allocate for implementation. According to the World Bank, Uganda collects taxes equivalent to 14% of GDP which is below the government set target of 16% and below what can be collected by an estimated 18%-23%. There have been growing reports of tax mis-declarations and evasion by tax payers with a recent appeal by the Uganda Revenue Authority (URA) to the public to desist from falsifying Value Added Tax (VAT) invoices. There is also lack of awareness of the public's role in the administration of taxes in general.

Conclusion

In spite of the high outturn levels of the approved respective sector budgets and government interventions, the MDAs and LGs continue to register PFM lapses in the execution of their budgets that hinge on expenditure and financial management. This is partly due to the need for increased allocations to sectors to execute their expanding mandate. The URA collections are less than the desired 16% target which is short of the East African Community target of 18% of GDP.

To that effect, it is high time the debate shifts to focusing much attention on revenue, especially the sources of public revenue to afford increased allocations to MDAs and LGs.

Recommendations

To widen the tax base, the following measures should be undertaken;

i.) URA should intensify its awareness campaign on the taxes administered, and taxpayers' responsibility in the collection process - for example, the requirement to withhold tax for any payment for professional services rendered and its subsequent remission.

ii.) URA should extend the Electronic Fiscal Device (EFD) technology currently being adopted to key traders and businesses in a phased approach, through subsidizing these devices. This will address non-compliance and facilitate a reconciliation of VAT to income tax declaration. Additionally, electronic invoicing should further be intensified with an objective of automating most processes.

iii.) The MFPED should establish a tax research unit under the Tax Policy Department. The unit should spearhead research on all possible tax measures clearly articulating the likely impacts on the various sections of the population. This would provide a menu for Government to select from during the budget preparation process.

iv.) Government should step up effectiveness of programme implementation and subsequently service delivery. The improved accountability in public expenditure, will incentivize many tax payers who would otherwise evade payments.

v.) Government should institute mechanisms for monitoring revenue generation activities as is being done under budget expenditure.

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