The Government of Uganda has introduced performance contracting, budget reporting and budget monitoring to improve accountability and as a part of wider efforts to improve service delivery.

A performance contract is a signed agreement between the Accounting Officer of a spending agency and the Permanent Secretary of the Ministry of Finance declaring the intended use of public funds. Each quarter a Performance Report must be submitted to the Ministry of Finance outlining progress against a workplan.

The Government produces a budget performance report on a semi-annual basis which presents information on financial and physical performance. It is used to guide decision-making and influence the budget process.

The Budget Monitoring and Accountability Unit was established to monitor priority projects and programmes. This involves physically inspecting and verifying the information in performance contracts and quarterly performance reports.

There is strong Government ownership over these initiatives to improve accountability. And each has evolved in response to concerns from the executive and technocrats on the need to improve service delivery. The accountability initiatives are in the early stages. Progress still needs to be made to improve the quality of the documents and to strengthen how performance information influences the budget process.

CHARACTERISTICS OF PERFORMANCE CONTRACTING, BUDGET REPORTING AND BUDGET MONITORING

(i) PERFORMANCE CONTRACTING

A performance contract is a signed agreement between the Accounting Officer of a spending agency (or vote) and the Permanent Secretary or Secretary to the Treasury of the Ministry of Finance, Planning and Economic Development (Ministry of Finance). It is a tool for ensuring accountability in public spending: all spending agencies are required to complete one and declare how they intend to use public funds.

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There are two types of performance contracts: Performance Contract Form A is used by central government spending agencies; and Performance Contract Form B is used by local government. Both types of Performance Contracts contain similar information. This includes:

- Terms and conditions of the performance contract.
- Summary of performance by vote function outputs and department performance plans.
- Revenue performance and plans (only for local government).
- The annual workplan.
- The quarterly workplan for the financial year.

Timing:
Both Performance Contract Form A and B must be submitted to the Ministry of Finance by the end of the each financial year, outlining spending for the following financial year. Performance Contract Form B must also be submitted to the local government council for approval two weeks prior to submission to the Ministry of Finance.

(II) BUDGET REPORTING

Budget reports are another tool of accountability. They are used to guide decision making and show areas of underperformance. There are two main types of budget reports: those used for reporting at the spending agency level; and those used for reporting at the aggregate level.

Spending agencies budget reports
Spending agencies are required to submit quarterly performance reports which show progress against the workplan in the performance contract. The reports outline financial and physical performance both by quarter and cumulatively. Central government agencies submit reports for each sector to the Ministry of Finance. At the local government level the reports aggregate information on all departments and are sent to both the Ministry of Finance and central line ministries.

TERMS USED IN PERFORMANCE CONTRACTING, BUDGET REPORTING AND BUDGET MONITORING

Sector: Groups of institutions (votes) or parts of institutions which contribute towards a common function, such as education.

Vote: Institutions (ministries, departments, agencies and local governments) which are the basis of the annual budget and appropriations made by Parliament, such as Ministry of Education and Sports.

Vote function: Groups of related services or capital investments delivered by a vote or on behalf of that vote by another institution.

Key output: Strategically important services delivered by the vote function which contribute directly to the vote’s objectives, and indirectly to the sector’s objectives.

Output: The direct result of inputs, including financial resources. These could be capital investments or groups of related services, such as classroom construction or teacher’s salaries.

Financial performance: How budgetary resources have been allocated and spent. This considers whether funds have been allocated to priority areas, if spending is in line with appropriations, and whether resources are being utilised.

Physical performance: Whether planned outputs have been achieved, such as roads construction.

Source: Ministry of Finance, Planning and Economic Development, Uganda

Timing:
A period of 3 months is set aside to allow the Ministry of Finance to analyse the reports and provide feedback to the spending agencies.

Aggregate budget reports
Aggregate budget reports provide a holistic overview of the Government’s financial and physical performance. They contain information on performance at the sector, spending agency and local government level. Aggregate budget reports are aimed at decision makers including those in the President’s Office, the Parliament, government officials, development partners and civil society.
Two aggregate budget reports are produced each year: the Annual Budget Performance Report; and the Semi Annual Budget Performance Report.

The Annual Budget Performance Report is used to influence the proceeding year’s budget cycle. It is concerned with the absorptive capacity of spending agencies and bottlenecks to performance and used to inform policy decisions.

The Semi Annual Budget Performance Report is used to influence in-year decision making, particularly as it is available at the time the Budget Framework Paper is being developed.

Both the Annual Budget Performance Report and the Semi Annual Budget Performance Reports have four sections:

- Overall fiscal and resource performance;
- Overview of expenditure performance (highlights including sector level expenditure and service delivery performance; central government expenditure; local government transfers and expenditure);
- Highlights of sector financial and physical performance;
- Details of financial and physical performance by vote.

**Timing:**

- The Annual Budget Performance Report for the previous year is prepared in the first quarter of the current financial year. For example, the FY2011/12 report will be produced before the end of Q1 FY2012/13. This ensures information is provided in time to influence budgetary allocations for the following financial year.
- The Semi Annual Budget Performance Report is prepared during the third quarter.

**(III) BUDGET MONITORING**

The Budget Monitoring and Accountability Unit was established in 2008 to physically monitor priority programmes and projects. The unit focuses on nine areas: Health; Education and Sports; Water and Environment; Agriculture; Industry; Information Communications Technology; Microfinance; Energy; and Roads and Transport. This is a government funded project unit, with contract staff members.

Budget monitoring aims to verify the information in the quarterly performance reports and assess the link between financial performance and physical performance. Therefore, to some extent, budget monitoring does comment on value for money. In cases where areas of particular concern have been noted, follow up visits are made to assess progress.

Quarterly budget monitoring reports present findings and high level recommendations. The Budget Directorate at the Ministry of Finance uses the information to engage with spending agencies on performance issues. And each sector is required to submit a written response explaining areas of under-performance. The reports are aimed at individuals working in Parliament (including the Parliamentary Budget Office), government officials and development partners. The Unit also has a direct reporting line to senior management, so that priority concerns can be flagged. The work of this Unit complements other government agencies, such as the Auditor General, the Accountant General, Office of the Prime Minister and the Inspector General of Government. The role of this Unit has evolved to include undertaking research into specific issues around poor performance. The research is usually contracted by other government departments and agencies and serves as a basis for making policy recommendations. Studies undertaken include non-compliance in public financial management, an investigation into the state of primary schools; spending constraints in local governments; and the adequacy and impact of financing the food security budget through the National Advisory services.

**Timing:**

Budget Monitoring Reports are produced by the end of every quarter. At the end of the financial year an Annual Budget Monitoring Report is produced which summarises key performance issues.
THE EVOLUTION OF PERFORMANCE CONTRACTING, BUDGET REPORTING AND BUDGET MONITORING

These are all measures which have been introduced to improve accountability, with the aim of enhancing service delivery. Improving basic services has been a government priority and has been supported by government policies and strategies, such as the Poverty Eradication Action Plan which dates back to the late 1990s.

In recent years there has been growing concern about the poor quality of public services and the inefficiency of public spending. In the years prior to the 2011 election, the executive was keen to demonstrate these concerns were being addressed and steps were being taken to improve service delivery. This led to the formation of the Budget Monitoring and Accountability Unit in 2008, which was tasked with monitoring service delivery. The Unit also spearheaded the initial design of the performance contract. The high level political support enjoyed by the unit has enhanced its profile and ensured that its findings have been taken seriously by senior management in the Ministry of Finance.

Initially, the submission of the performance contract and quarterly performance reports were used to trigger a financial release. However a presidential directive issued in September 2011 changed this. The directive recognised that withholding funds meant that core services could not be delivered. The directive decided that individual Accounting Officers should instead face sanctions on a case by case basis. Sanctions may include warning letters and publishing the names of non-compliant officers in the newspaper. Each quarter Accounting Officers at the local government level are required to complete an appraisal and to meet the Permanent Secretary of the Ministry of Local Government to discuss their individual performance.

As a part of a renewed drive to improve the efficiency of public spending, senior technocrats within the Budget Department in the Ministry of Finance were keen to better understand how spending agencies utilise public resources, and what the results of spending are. There were efforts to build on the earlier successes of output oriented budgeting that were realised through the Medium Term Expenditure Framework. This involved ensuring a tight and systematic link between funds and outputs was established and maintained, where the same framework is used for budget formulation and execution. In 2007 an in-house database called the Output Budgeting Tool was developed to automate this process. This was entirely led by the government and was supported by a small team of long-term technical advisors with experience in budgeting and computer programming.

The function of the Output Budgeting Tool has since evolved to incorporate the automation of performance contracts and performance reports. Therefore, even though the initial driving forces behind output oriented budgeting and performance contracting and budget monitoring reforms were different, over time they have come to be mutually reinforcing. The Output Budgeting Tool has been instrumental in supporting both of these processes. The strong government ownership and political will to demonstrate that efforts are being taken to improve service delivery has been crucial in implementing and sustaining these initiatives.

CHALLENGES

(I) PERFORMANCE CONTRACTING

The quality of performance contracts have improved since they were first introduced. This is largely due to Ministry of Finance investing in training for local governments on using the Output Budgeting Tool to produce the documents. At the central government level, Parliament has played a role in analysing and commenting on the performance contracts. This has also improved the quality of these documents.
However, work remains to be done in making further improvements to the quality of performance contracts. In particular, newly created local government institutions still require substantive training on how to use the Output Budgeting Tool. Requests to include information in performance contracts have also increased as different stakeholders come to recognise the benefits of the instrument. This requires training programmes keep pace with the additional requirements of performance contracts.

The increasing number of local governments producing Performance Contracts is also challenging capacity within Ministry of Finance and line ministries to review the documents and provide feedback.

(II) BUDGET REPORTING

While information on financial and physical performance is available in time to influence decision making and the budget process, there is a lack of systematic evidence of how this works in practice. For example, there are still cases of in-year budget reallocations and virements which are not penalised by changes in the financial release.

(III) BUDGET MONITORING

Budget monitoring faces two main challenges. The first is that whilst the reports have information on findings and recommendations, the spending agencies do not always act on this to improve performance. There is a tendency for spending agencies to go to ‘defensive mode’ largely due to apprehensions over funding being reduced. To a large extent this is because the accountability mechanisms being led by the Ministry of Finance, and a need to institutionalise the incentives for spending agencies to improve performance. The second challenge is that due to the intense nature of continuous field work there is a possibility of burnout amongst staff members. This means it is important to ensure incentives are in place to keep staff members motivated and engaged.

BIBLIOGRAPHY


