



## A Critical Review of the on Going Public Finance Management Reforms: Are the Reforms Yielding on the Expected Outcomes?

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### Executive Statement

*This policy brief examines the progress and impact of the on-going public finance management reforms undertaken by the MF-PED since 2012/13. These reforms include the implementation of the Treasury Single Account (TSA); upgrading the Integrated Financial Management System (IFMS) and the Integrated Personnel and Payroll System (IPPS); improving wage and payroll management, improving budget formulation, implementation, monitoring and reporting; and strengthening budget transparency. The study employed different but complimentary approaches to gather the relevant data and information at central and local government levels. The study findings show that despite some challenges, the reforms are so far yielding positive results in terms of improved accountability, reporting and service delivery. The key reforms have contributed to improved public finance management at different levels of government. These areas include improved public expenditure management through the (TSA), improved accountability and public expenditure use through the IFMS, reduction in ghost workers and the overall wage bill at MDAs and local governments through the IPPS in a decentralised system.*

### Introduction

Despite the enactment of a number of public finance management reforms since the 1990s, misappropriation of public funds in Uganda remains a major challenge. Nonetheless, the government initiated a number of new reforms and measures through the ministry of finance planning and economic development in 2013. The reforms included the creation of the Treasury Single Account (TSA) in 2013; the upgrade of the Integrated Financial Management System (IFMS); the closure of all redundant bank accounts; the institution of limits on cash withdrawals and advances; the improvement in payroll management; improvements in budget formulation, implementation, monitoring and reporting; and strengthening budget transparency. In addition, the government finalized the Public Finance Management Bill of 2012 which guides fiscal and macroeconomic management including the management of the expected oil and gas revenues.

This policy brief presents a summary of the achievements and challenges to the new reforms since they were introduced in 2012/13. The brief provides key policy recommendations important to achieving the expected outcomes towards public finance management.

### Methodology and Evaluation Framework for the On-Going PFMR

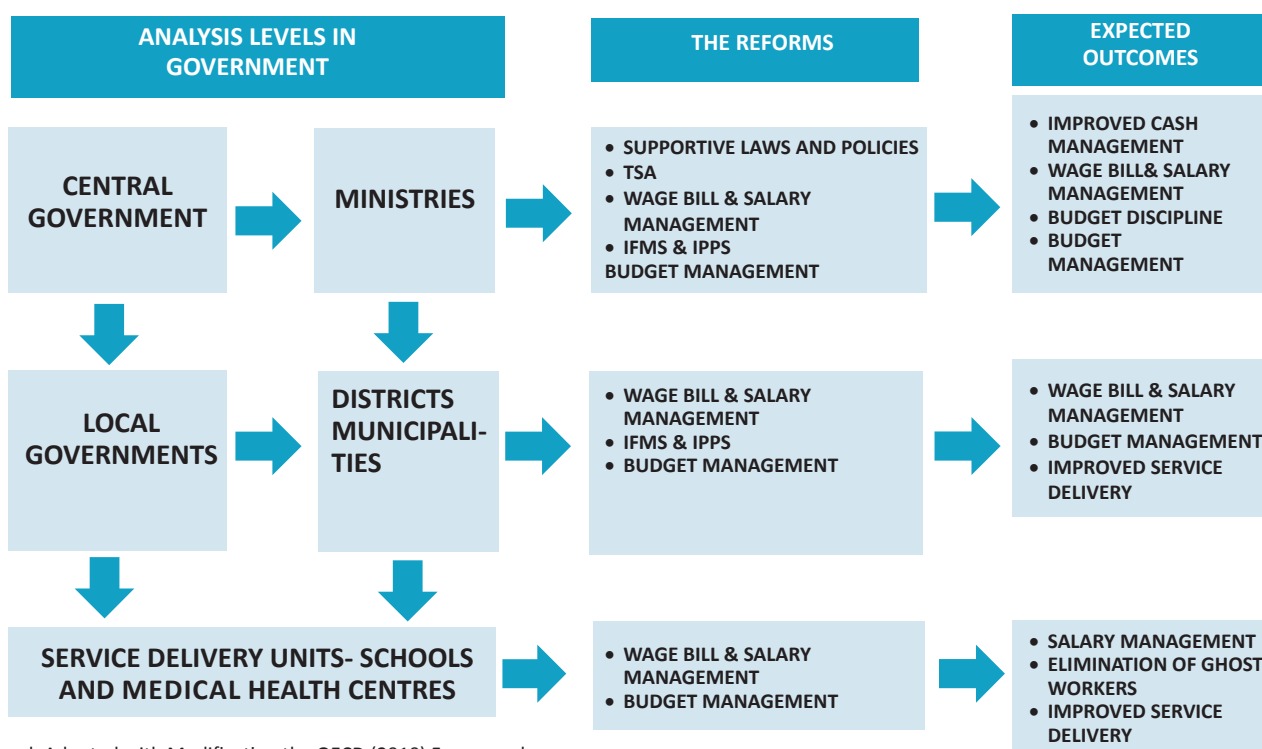
This study employed different but complimentary approaches to gather the relevant data and information. First, we conducted an extensive review of government documents and reports relating to the reforms to obtain a clear understanding of the existing public finance management system. Second, we held consultations with key ministries and government departments responsible for implementing the reforms. These consultations were used to capture the perspectives of the departments on the progress of the reforms in terms of achievement and challenges. Third, we collected qualitative data from local governments (districts and municipalities) as well as service delivery units (schools and health centers). We used a multi-stage purposive sampling procedure to select local governments and service delivery units. The districts and municipalities were stratified into homogeneous groups according to their connectivity to IFMS. From each group, the local governments were further categorized according to their administrative regions (Central, Western and Northern). From each of these regions, three to five local governments were selected. The local governments were selected with consideration of time and travel costs. Fourth, from each district or municipality,

a Universal Primary Education (UPE) school and a Health Service Center were randomly selected. In Nakaseke and Masindi, we were prevented from gathering data at the school because Primary Leaving Examinations were taking place at the time of the survey.

The study adopted a modified OECD (2001-2010) evaluation framework that considered the level of the MDAs and their relationship to service delivery units, the nature of reforms, and the expected outcome from these reforms. In terms of

impact, some of the reforms are of a macro in nature and operate at the central government level, whereas others are specific to local government and service delivery units. The reforms cut across all levels, except the TSA, which is specific to the central government. It should also be noted that the IFMS and the Integrated Personnel and Payroll System (IPPS) do not operate at service delivery units. This study assesses progress made so far against the expected outcomes as shown in Figure 1.

Figure 1: Evaluation Framework for on-Going PFMR



Sourced: Adopted with Modification the OECD (2010) Framework

### Achievements and Challenges of the On-Going Public Finance Management Reforms at the Ministry and Local Government Levels

The findings of the study are based on both document reviews and stakeholders’ responses on the impact of the on-gong public finance management reforms. The matrix below shows the achievements and challenges to the key reforms so far.

### Achievement of the Reforms at UPE Schools and Medical Health Centres

The timely payment of salaries improved. The majority of the stakeholders interviewed both at the central and local government level, reported improvements in the timing of salary payments. Survey results indicated that 76 percent of the teachers and 80 percent of the health workers reported an improvement in the timing of salary payments. Where delays occurred, blame was not apportioned to the MPS but to the late submission of payroll particulars by the accounting officers. This has put pressure on the accounting officers and made them more efficient in compiling and submitting the payroll to avoid antagonizing their staff

**Table 1: Matrix of the On-Going PFMR at the Ministry and Local Government levels**

The Reforms	Achievements	Challenges
1) Treasury Single Account(TSA)	<ul style="list-style-type: none"> <li>▪ Improvement of cash management at MDA level</li> <li>▪ Central control of government expenditure account by MoFPED through the TSA</li> <li>▪ Elimination of idle and redundant accounts, about 600 redundant accounts worth Ushs. 50 billion have been closed and funds transferred to the consolidated fund (CF)</li> <li>▪ Low incidence of abuse of funds</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited skills capacity to implement the TSA system at MDA level</li> <li>▪ Time lag in providing feedback on cash releases from TSA to subsidiary accounts of the MDAs</li> <li>▪ Sweeping cash daily from the subsidiary account of the MDA back to TSA account in the central bank remain a challenge</li> <li>▪ Internet failures</li> </ul>
2) Integrated Financial Management Systems	<ul style="list-style-type: none"> <li>▪ 69 MDAs, 40 local governments and 18 government projects connected to IFMS</li> <li>▪ Improved accountability and budget reporting since every transaction leaves a digital foot print a blue</li> <li>▪ There is instant production of reports using the IFMS compared to the previous periods where reporting could take several days or weeks</li> <li>▪ Reduction of paper work as both financial and non-financial data is stored on the IFMS</li> <li>▪ New security features and commitment control measures for the entities to work within the approved funds have been introduced</li> </ul>	<ul style="list-style-type: none"> <li>▪ Still limited to only 40 local governments (36 districts and 4 municipalities)</li> <li>▪ Capacity gaps in terms of skills to use the system especially at local government levels</li> <li>▪ Network failures, system and server failures and low coverage of the system</li> <li>▪ High cost of travel by the local governments that are not connected to IFMS to input data in the IFMS at the ministry of finance, it takes at least four days to input payroll data at the ministry of finance and approval payments</li> <li>▪ Interfacing IFMS with IPPS is still limited to MDAs. Of the 55 votes interfaced with IPPS, 4 are local governments.</li> </ul>
3) Decentralization of Wage and Payroll Management	<ul style="list-style-type: none"> <li>▪ Efficient pay roll management by the accounting officers through periodical verification involving all employees</li> <li>▪ Efficient management of salary (earlier at the MDA level and local government)</li> <li>▪ Display of the payroll has enhanced public and employee participation in cleaning the pay roll and correction of errors and omission in staff salaries</li> <li>▪ Processing of the payroll is currently through the IPPS at the Ministry of public service where its mandatory that payroll for MDAs and local governments has be fed into the system</li> <li>▪ Timely payment of public servants' salaries by 28<sup>th</sup> of every month since 2014</li> <li>▪ Reduction in the overall wage bill of public servants. There is observed evidence of general reduction in the wage bill at MDAs and local government. This is consistent with the preliminary Office of the Auditor General audit that shows that government has saved about Ush, 100 billion in the July-September quarter due to the cleaning of the payroll.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The cost of updating the payroll and effecting salary payments by the CAOs where there is no IFM and IPPS systems</li> <li>▪ Increased workload for the human resource offices</li> <li>▪ Increased workload for the human resource offices Capacity gaps</li> <li>▪ The migration from the manual payment system to IPPS system is a challenge to staff</li> <li>▪ Managing salary loan deductions for the banks is time consuming at the local governments</li> <li>▪ Low capacity internet connectivity at local government is limiting payments through the IFMS</li> <li>▪ Low connectivity by a bigger number of local governments to IPPS for payroll processing; only 10 local government are connected to IPPS by user.</li> </ul>
4) Improving Budget Implementation, Monitoring and Reporting	<ul style="list-style-type: none"> <li>▪ Direct transfer of funds to UPE Schools, and medical health centres has improved timely implementation of programmes at all levels</li> <li>▪ There is improved quarterly reporting by MDAs and Local governments on their work plans</li> <li>▪ Strengthened budget transparency through quarterly budget releases in the press and quarterly budget briefings</li> </ul>	<ul style="list-style-type: none"> <li>▪ Late release of funds to service delivery units affects service delivery</li> <li>▪ Staffing levels and limited skills are affecting implementation of quarterly reporting on work plans at all levels</li> <li>▪ The budget monitoring website is not yet fully operational to be accessed by the public</li> <li>▪ Limited feedback information from the ministry of finance on the funds released to the services units for CAOs to follow</li> <li>▪ Lack of commitment from the heads of the service units to account to the CAOs</li> </ul>

The decentralization of the payroll has indirectly led to an improvement in staff motivation. Survey results at the service delivery units revealed that 70 percent and 74 percent of teachers and health workers, respectively, reported an improved attitude toward their work (figure 3). The main

reason for this improved attitude was the timely payment of salaries. Consequently, this improvement in attitude is likely to positively impact on service delivery.

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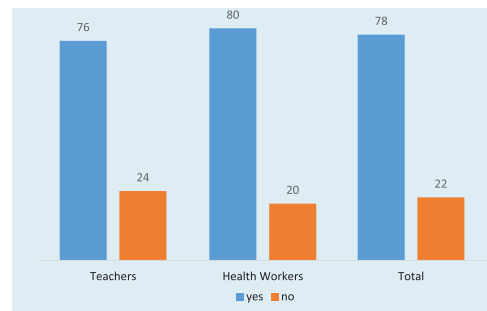
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**Figure 2: Reported Positive Change in timing of Salary Payment**

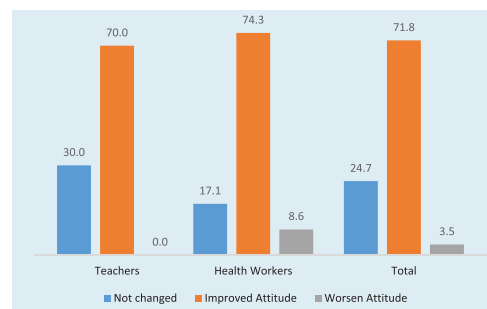


Source: Authors Own Calculations from primary data collection (October – November 2014)

**Conclusions and Emerging Policy Recommendations**

Overall, the reforms and measures under

**Figure 3: Change in Attitude towards work as a result of payroll decentralization**



Source: Authors Own Calculations from primary data collection (October – November 2014)

review have positively improved public finance management. This has been demonstrated by the timely disbursement of funds to service delivery units, timely salary payments, the improved accuracy of

the payroll, and the reported reduction in the total public wage bill. However, despite these improvements, there are still issues with the implementation of these reforms, which hamper the effectiveness of Uganda’s public finance management and affect the delivery of public services. These challenges include limited coverage of the IFMS and IPPS, limited interfacing of the IFMS with IPPS and OBT, limited internet and other infrastructure coverage, and a shortage of technical capacity expertise to operate the IFMS, IPPS and OBT systems.

For Uganda to improve in the overall delivery of public services, there is a need to move beyond the reforms reviewed in this study. Creating a system alone, without improving productivity or changing the mindset of the civil service might not be enough. There is a need to address the root causes of inefficiency in service delivery and the misuse of public funds. Measures such as the introduction of performance contracting may be suitable to improve the efficiency of public service. Through this measure, public servants would have target-oriented contracts that condition renewal or promotion on the servant’s performance in terms of attainment of the set targets. This measure, however, requires not only the political will but also the amendment of existing laws to permit the employment termination of public servants who are unable to performance tasks satisfactorily.

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