Cross-cutting Budget Issues Papers to assist strengthening sector dialogue and budgeting

1. Introduction

The main objective of the budget issues papers is to provide a platform to help articulate focused dialogue to address social sector issues. They do not attempt to identify a definitive list of key sector issues as this would undermine ownership. Instead, the aim is to use data and analysis as a basis for sector discussions. This cross-cutting paper distils key messages from each sector budget issues paper and provides recommendations on how the dialogue process could be strengthened. These recommendations are also expected to support deliberations for the FY2019/20 Budget Framework Paper (BFP) process and deliberations for the third National Development Plan (NDP 3) to be launched in FY2020/21.

Articulating budget issues at the sector level based on a fiscal constraint is not new in Uganda and was founded on three core principles developed as part of the Mid-Term Expenditure Framework (MTEF) process in the late 1990s and early 2000s (Box 1). These centred on: (i) sector prioritisation based on limited resources and fiscal constraints; (ii) scaling up of social sector resources at the decentralised level; and (iii) strengthening country systems through channelling and aligning aid through the national budget process.

**Box 1: Budget issues and sector prioritisation in the MTEF process**

| (i) | Prioritisation: | Discussions centred on strategic and operational issues at the sector level based on levels of fiscal space defined by an MTEF ceiling. The Ministry of Finance, Planning and Economic Development (MoFPED) considered these in the context of the strategic direction of the country, e.g. sector strategies articulated in the Poverty Eradication Action Plan (PEAP), to help guide outcome trends and meet medium-term targets. |
| (ii) | Scaling up social sector resources at the decentralised level. | Election manifesto pledges by the National Resistance Movement (NRM) for Universal Primary Education (1997) and free basic health care (2000) followed efforts to decentralise social sector service delivery to the district level through changes in the Constitution (1995) and Local Government Act (1997). This established a strong platform from which to achieve the Millennium Development Goals (MDGs). |
| (iii) | Channelling and aligning aid through the national budget process. | This was built on the notion of having one strategy that everyone can align their resources to – whether domestic or external. General Budget Support was the main instrument to deliver this in Uganda and peaked at almost 40 per cent of total government expenditure in 2002. Other forms of sector budget support and complementary project support meant that, irrespective of the aid modality, financing was channelled towards a core set of issues – commonly referred to as a sector-wide approach (SWAP). |

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1 There are four accompanying sector budget issues papers: Education, Health, WASH, and Social Development and Child Protection.
2 Notionally earmarked to receive a commensurate increase in the GoU sector ceiling
2. Social sector dialogue and spending trends

Today the picture is substantially different, and it is now more difficult for targeted discussions about budget issues and social sector prioritisation for three reasons. First, the separation of finance and planning institutions in 2010 means that there are now different ideas, actors and approaches as to how planning and budgeting should work together. Second, from the mid-2000s government priorities shifted away from social sectors towards addressing infrastructure constraints. Third, budget support is no longer a significant aid modality and there has been an increasing shift back to project support. The combination of these three factors has meant that the focus and level of stakeholder involvement and dialogue in the budgeting process for social spending has deteriorated and become increasingly fragmented.

The share of social spending in the budget has also been declining over the past 20 years as decentralisation, budget support and sector dialogue have simultaneously contracted. These factors have resulted in declining social spending as a share of total spending, from both domestic (44% to 32%) and external (42% to 25%) funding sources (Figures 1 and 2).

**Figure 1: Domestic sector shares (% of total spending)**

![Bar chart showing domestic sector shares over time]

**Figure 2: External sector shares (% of total spending)**

![Bar chart showing external sector shares over time]

Source: MoFPED Budget Performance Reports and MTEFs (Various Years).

This has been compounded by population growth and inflation. Government of Uganda (GoU) social sector spending has not kept pace with inflation and population growth and has steadily declined since 2003 (Figure 3). External projects also declined steadily between 1998 and 2010, reflecting development partners’ prioritisation of budget support over project support. This has picked up sharply since 2010 following most bilateral donors swinging back to the project modality.

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3 GoU social sector spending grew five times from 1997 to 2013 whereas economic and productive sectors have grown almost 40 times over the same period.

4 Budget support now accounts for less than 0.5 per cent of government spending.
As social spending has declined, social sectors have increasingly centralised spending, which is contradicting early decentralisation efforts. Figure 4 illustrates how since 2000 – when decentralised spending peaked in real per capita terms – the subsequent 15 years have seen a move towards parity with central spending. The WASH budget issues paper illustrates the impact this has had on that sector, while across all social sectors it has implied that in practice it is predominantly the wage bill that is decentralised.

3. Implications for inclusive economic growth and current debates

Recent economic growth diagnostics suggest that to reinvigorate slowing growth, there is a need to balance infrastructure investment with human capital development. With a growing young population, there is an urgent need to develop a skilled cadre of workers to unleash the potential of the infrastructure spending, the technical demands of the oil sector and subsequent spill over into the manufacturing and service sectors (Box 2).

Box 2: The case for human capital development for more balanced economic growth

Uganda has a young and fast-growing population. In 2014, MoFPED reported that the lack of good-quality vocational education – such as in practical skills and management – resulted in mismatches between labour skills and business needs, particularly in the skill-intensive manufacturing and service sectors. With an increasingly young labour force, the need for skill development is rising rapidly. An estimated 700,000 individuals enter the Ugandan labour market each year, and they need good-quality education to gain competency for high wage jobs and become competitive in regional and global markets. The emergence of the oil sector gives more urgency for quality education to equip the young labour force with the required skills in new jobs being created in the sector.

Source: IMF (2017)

4. Prioritising within a tight fiscal constraint

Recent indicators suggest challenges in human capital accumulation due to poor quality of education. One proxy of human capital formation is the average primary completion rate. Uganda’s primary completion rate declined from 60 per cent in 2001–05 to about 55 per cent in 2011–15. This decline is in sharp contrast to the improving rate in other East African Community (EAC) countries (Figure 5) and is strongly correlated with the decline in education spending.

Reversing this trend will require prioritising between different sectoral needs as there is limited domestic fiscal space over the medium term. Figure 8 illustrates the growing fiscal deficit since the mid-2000s, resulting from the infrastructure drive, reduced budget support and a general decline in domestic revenue as a proportion of GDP (Figure 9). As part of the EAC convergence criteria, the fiscal deficit must be no higher than 3 per cent of GDP in 2021. If one takes into consideration the medium investment commitments such as the Standard Gauge Railway (SGR) and other oil-related infrastructure, rebalancing social sector spending can only realistically be addressed through expenditure measures as a result of structural challenges in domestic revenue mobilisation. These could take four different forms: (i) cutting other sectors; (ii) finding efficiency savings within social sectors; (ii) reallocating within social sectors; or (iv) better targeting of external financing within the social sectors.

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6 The GoU is undertaking a series of tax revenue measures to reverse the downward trend illustrated in Figure 9. However, revenues generally take longer to take effect and may require a three- to five-year horizon.
5. Targeting more effective decentralised service delivery spending

Funding levels for social services in most local governments (LGs) are too low to achieve improvements in outcomes. Early efforts to support the decentralisation drive have not been sustained for all social sectors because of changing government priorities. Figures 10 and 11 illustrate the decline in non-wage items in the Education and Health sectors, where transfers to local governments began to decline in real per capita terms from the mid-2000s. Allocations in education were further compressed with the introduction of Universal Secondary Education in 2006. From 2010, wage transfers for teachers and health workers recovered, keeping pace with population growth and inflation. However, other allocations continued to be eroded. This has cumulatively resulted in a substantial decline in the real value of operational funding for schools and clinics. There were, however, increases in development allocations from 2009/10 for districts in northern Uganda recovering from conflict, following peace in the late 1990s. Excluding the latter, development transfers declined in real terms by 81 per cent in primary health and sanitation services and 52 per cent in primary education.

Figure 10: Education Sector Grants (Per pupil 2016 prices)

![Education Sector Grants](image1)

Source: MoFPED, UBOS, World Bank World Development Indicators

Figure 11: Health Sector Grants (Per capita 2016 prices)

![Health Sector Grants](image2)

Source: MoFPED, UBOS, World Bank World Development Indicators
There are also regional inequities in how transfers are made that are adversely affecting service delivery in several districts. Because of the increasingly fragmented and ad-hoc historic system of LG transfers, large horizontal disparities emerged in the value of transfers across local governments over time. In the 2016/17 financial year, public spending per capita on health and per child in education were over 10–20 times higher in some districts than others (Figures 12 and 13). For some LGs, this skewed allocation meant providing education services at a per capita cost of less than USh. 20,000 (US$5) per year. The horizontal disparities in the size of grant allocations contributed to disparities in health and education outcomes. For example, the proportion of babies delivered in public health facilities varies from 4 to 94 per cent, and the number of students per primary school teacher varies from as low as 32 to as many as 100 across districts. The GoU has embarked on a process of revising the allocation formula from 2016 onwards, which is a positive step to address these regional inequities – although it is too early to assess the impact this is having.

**Figure 12:** Total transfers in education per child of school-going age across LGs (2016/17)  

**Figure 13:** Total transfers for health per capita across LGs (2016/17)

Source: Ministry of Finance (OTIMS), UBOS and the Education Management Information System

Planning and budgeting bottlenecks remain at the local government level due to distortions caused by the refugee influx, and poor data management and recording of off-budget aid flows. The population figures used as a basis for Indicative Planning Figures for local government releases exclude refugee populations, which is creating an intense strain on service delivery in refugee-hosting areas. Similarly, line ministries are falling short in terms of poverty and outcome indices to guide allocations. In other cases, the lack of disclosure and/or systems to track off-budget donor financing that is channelled directly to districts means that several districts will receive more than they should from the GoU. These three issues require consideration as the allocation formulae for local governments are being revised.

6. **Addressing cross-cutting sectoral issues**

Cross-sectoral issues refer to those that rely on coordination between two or more sectors and that cannot be clearly aligned to the budget structure so run the risk of being underserved. Table 1 below illustrates the examples that were identified as challenges from the four budget issues papers.

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7. In 1997 there 10 conditional grants and by 2015 there were 46. The number of districts also tripled from 45 to 133 over the same period.

8. An example was the failure of the Education Management Information System (EMIS) to produce the statistical annexes, which are necessary for league table analysis based on key sector indicators. A manual request had to be made by the Ministry of Education to Chief Accounting Officers.
Table 1: Examples of cross-cutting issues emanating from the budget issues papers

<table>
<thead>
<tr>
<th>Cross-cutting area</th>
<th>Status in the planning and budget process/challenges</th>
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<tbody>
<tr>
<td>Sanitation</td>
<td>An MOU developed between the three responsible ministries (Health, Water and Education), although this has not transcended into a clearly defined space in the budget structure. Efforts to establish a sanitation fund and use of the sanitation grant have run into difficulties as donors withdrew funds.</td>
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<tr>
<td>Nutrition</td>
<td>Currently straddles the Health and Agriculture GoU sectors. Under international WHO guidelines, interventions fall under health, but this cannot be identified within the health programme budget structure. This is misaligned to the health strategic plan, which includes nutrition-related indicators on stunting and wasting. Currently, a nutrition action plan exists, but this cannot be aligned to the budget structure.</td>
</tr>
<tr>
<td>Social welfare and probation workers</td>
<td>Their functions fall across two sectors (social development and JLOS) and require different skill sets. Recruitment is done through the Ministry of Local Government, which adds a further layer of complexity.</td>
</tr>
<tr>
<td>Refugee planning</td>
<td>This should form a standard part of local government planning and budgeting processes, but the population figures used by central government exclude refugee numbers. The Office of the Prime Minister has a mandate to manage refugee-related off-budget funding to refugee-affected areas. These processes are not reconciled, leading to heavy demand in affected districts, which cannot be matched with service delivery supply (commodities, vaccines, etc.).</td>
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</table>

While the GoU has made efforts to improve its budget transparency, the cross-sectoral issues above have proved stubborn to address. The second National Development Plan (NDP 2) attempted to address these, but this did not transcend into changes to the budget structure. Under NDP 2 the National Planning Authority (NPA) undertakes a compliance assessment of the budget (ex-post) but, given the inability to align the national budget and NDP, this has proved a challenge. Plans are underway to rectify this as part of NDP 3, which is due to be launched in FY2020/21 (see Box 3).

Box 3: Plans to target interventions by MDAs towards cross-cutting programmes in NDP 3

Plans for the development of NDP 3 aim to address the misalignment shortfalls from previous iterations of NDP 1 and 2. The NDP 3 aims to have a small number of strategic indicators (no more than 20) and ministries, departments and agencies (MDAs) must identify and cost their interventions towards the attainment of these indicators. Efforts will be made to ensure that these interventions are aligned to the budget structure, so that the BFP can be assessed based on compliance with NDP 3 (ex-ante rather than ex-post). This aims to streamline the prioritisation process and serve the demands of stakeholders – such as parliamentary committees – that are demanding more qualitative discussions around strategic planning and prioritisation.

7. Strengthening the use of country systems

There has been a distinct shift away from channelling funds through the national budget with project aid now the dominant modality in social sectors. In 2003, budget support accounted for over half of aid flows in the social sectors, but since then there has been a 10-fold increase in project support and a subsequent decline in the use of the sector budget support instrument (Figure 13). Since 2009, an increasing number of projects have been channelled

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9 Second in sub-Saharan Africa with South Africa first in the Budget Transparency Index
10 It was thought that programme budgeting would rectify this, but the administrative structure remained unchanged while the naming convention changed, e.g. vote function became programme and project became sub-programme.
through NGOs and civil society organisations (two-fold increase) and multilateral organisations (seven-fold increase), although most projects are still channelled through public sector institutions (Figure 14).

![Figure 13: Aid Modalities to the Social Sectors (Disbursed US$ million 2016 prices)](image1)

![Figure 14: Channels of Project Aid in Social Sectors (Disbursed US$ million 2016 prices)](image2)

Source: OECD Creditor Reporting System

**Volatility of disbursements has been an issue for leading development partners in the health and education sectors.** There are numerous factors that could affect the volatility of disbursements reflected in Figures 15 and 16. In Health, disbursement delays have been attributed to late release of counterpart funds (see Health issues paper). Both the Health and Education sectors are heavily reliant on the provision of regular funding from the Global Fund and World Bank respectively and, unless these funding streams are reliably secured, services are likely to be adversely affected.

![Figure 15: Disbursements from the Global Fund to the Health Sector (US$ million)](image3)

![Figure 16: Disbursements from the World Bank to the Education Sector (US$ million)](image4)


**Aid sustainability and alignment risks are high, unless external resource decisions are embedded in the sector dialogue process.** This is particularly important given the fiscal gap-filling role that external resources will have to play over the medium term. It is therefore imperative that external resources are targeted around a core set of budget issues. Strong efforts have been made to this end in the Education sector, with project support targeted at addressing efficiency and structural problems in primary education and identifying plans to support the capacity of the Ministry of Education and Sports to manage data and analysis more effectively for school management (see Education issues paper).
8. Cross-cutting recommendations

On prioritising within a fiscal resource constraint and addressing cross-cutting issues

1. **Make better use of the programme budget structure to guide prioritisation**

   - Strengthen the costing of the main interventions for NDP 3, ensuring that these are consistent with the budget structure and within the limits of medium-term expenditure framework (MTEF).
   - Sectors where the programme budget and key interventions are misaligned (such as Health) should aim to rectify these prior to the launching of NDP 3.
   - Develop more streamlined strategic budget documents that are centred on budget issues.

On targeting more effective decentralised service delivery spending

2. **Integrate refugee populations, off-budget funding, outcome and poverty indices as part of the revised allocation formula**

   - Integrate refugee populations and off-budget funding into the revised allocation formula.
   - Undertake a full data and systems review of Management Information System (MIS) systems in the social sectors to ensure full data is available to support this process.

On strengthening the use of country systems

3. **Revive the Sector Working Group process for the purpose of sharing information on donor projects with the GoU and update the Aid Management Platform.**

   - Begin a series of monthly meetings, where each donor must present current and future interventions (both on and off budget).
9. Way forward and next steps

A two-step approach is proposed for converting these recommendations into tangible actions:

- **Step 1** involves discussing the issues raised in each sector budget issues paper and beginning a dialogue process as a basis for NDP 3.
- **Step 2** involves structuring the NDP 3 around the key issues through the outcome/intervention approach that has been planned.

An indicative timetable is listed below regarding the process flow for Step 2, which will require verification through a stakeholder workshop.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Recommendation</th>
<th>Timing</th>
<th>Lead</th>
<th>With</th>
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</thead>
<tbody>
<tr>
<td>Prioritising within a fiscal resource constraint and addressing cross-cutting issues</td>
<td>Strengthen the costing of the main interventions for NDP 3, consistent with the budget structure and MTFF</td>
<td>Nov 18</td>
<td>NPA</td>
<td>MDAs/ MoFPED</td>
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<td></td>
<td>Sectors where the programme budget and key interventions are misaligned (such as Health) should aim to rectify these prior to the launching of NDP 3</td>
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<td>MDAs</td>
<td>NPA/ MoFPED</td>
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<td></td>
<td>Develop more streamlined strategic budget documents that are centred on budget issues</td>
<td>Jan 19</td>
<td>MoFPED</td>
<td>NPA</td>
</tr>
<tr>
<td>Targeting more effective decentralised service delivery spending</td>
<td>Undertake a full data and systems review of Management Information System (MIS) systems in the social sectors</td>
<td>Nov 18</td>
<td>MoFPED</td>
<td>MDAs</td>
</tr>
<tr>
<td></td>
<td>Integrate refugee populations and off-budget funding into the revised allocation formula</td>
<td>Nov 18</td>
<td>MOFPED</td>
<td>OPM, UBOS</td>
</tr>
<tr>
<td>Strengthening the use of country systems</td>
<td>Revive the Sector Working Group process monthly for the purpose of sharing information on donor projects with the GoU and to help update the AMP</td>
<td>Nov 18</td>
<td>MoFPED</td>
<td>MDAs/ DPs</td>
</tr>
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