



UGANDA

TECHNICAL ASSISTANCE REPORT—MANAGING AND PREVENTING EXPENDITURE ARREARS

September 2017

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Uganda

Managing and Preventing Expenditure Arrears

Amitabh Tripathi, Paul Seeds, and Carole Pretorius

Technical Assistance Report | March 2017



I N T E R N A T I O N A L M O N E T A R Y F U N D



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CONTENTS

ABBREVIATIONS AND ACRONYMS	3
I. INTRODUCTION	4
A. Background	5
B. Mission Methodology	7
C. Mission Outputs	7
II. REPORTING OF EXPENDITURE ARREARS	8
A. Stock of Verified Arrears	8
B. Issues in Reporting of Arrears	10
III. DEVELOPING AN ARREARS CLEARANCE STRATEGY	15
A. Current Status	15
B. Stocktaking and Verification Process	17
C. Classification and Prioritization	20
D. Liquidation of Stock of Arrears	20
IV. PREVENTING FURTHER ACCUMULATION OF ARREARS	23
A. Budget Formulation	24
B. Budget Release	28
C. Commitment and Expenditure Control	29
BOX	
1. Summary of Findings and Recommendations	4
FIGURE	
1. Verified Arrears by Expenditure Category (%) June 2016	9
TABLES	
1. Scores for Selected PEFA Indicators	5
2. Arrears as Percent of GDP	8
3. Increase in Verified Arrears (UGX billions) FY 2014–16	9
4. Arrears by Votes on June 30, 2016	10
5. Arrears and Payables in Annual Financial Statements	11
6. Verified Arrears v/s Original Budget and Supplementary	16
7. Revenue Performance FY 2010/11 to FY 2015/16	24
8. Budget Releases (%) Against Approved Budget (2015/16)	28
APPENDICES	
I. Action Plan for Clearance and Prevention of Arrears	33
II. Definitions for Major Category of Expenditure Arrears	34
III. Note on Arrears on Court Awards	36

ABBREVIATIONS AND ACRONYMS

AFE	AFRITAC East
AGO	Accountant General's Office
AO	Accounting Officers
BCG	Budgetary Central Government
BoU	Bank of Uganda
CPD	Cash Policy Department
DB	Directorate of Budget
DDCP	Directorate of Debt and Cash Policy
DEA	Directorate of Economic Policy
FAD	Fiscal Affairs Department (IMF)
FY	Financial year
GoU	Government of Uganda
IAD	Internal Audit and Inspection Directorate
IFMS	Integrated Financial Management System
IPPS	Integrated Personnel and Payroll System
LG	Local Government
KCCA	Kampala Capital City Authority
MDA	Ministries, Departments and Agencies
MoD	Ministry of Defense
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning and Economic Development
MTBF	Medium Term Budgetary Framework
ORT	Other Recurrent Expenditure
PFA	Public Finances Act, 2015
PFM	Public Financial Management
PFMA	Public Finance Management Act, 2015
PSI	Policy Support Instrument (IMF)
PS-ST	Permanent Secretary/Secretary to the Treasury
TA	Technical Assistance
ULC	Uganda Lands Commission
UNRA	Uganda National Roads Authority
URA	Uganda Revenue Authority

I. INTRODUCTION

- 1. At the request from the Ministry of Finance, Planning and Economic Development (MoFPED), East AFRITAC (AFE) fielded a technical assistance (TA) mission to Kampala during January 9 to 20, 2017.** The mission comprised Amitabh Tripathi and Paul Seeds (AFE public financial management advisors), and Carole Pretorius (expert). It provided practical guidance to the MoFPED on managing their existing stock of arrears and strengthening budget planning and expenditure control to prevent further accumulation of arrears.
- 2. Box 1 summarizes the mission's findings and recommendations, whilst the remainder of this aide memoire provides more detailed analysis.**

Box 1. Uganda: Summary of Findings and Recommendations

There has been a significant increase in the stock of verified arrears. The stock at end of FY 2016 stands at UGX 2.7 trillion, equivalent to 3.2 percent of GDP, an increase of over 90 percent over the last FY. In the absence of an ageing analysis the vintage of arrears cannot be determined. The reported stock does not fully cover budgetary central government (BCG)—sub-vented agencies; all categories of expenditure (salary and pensions); local government and the broader public sector. Discrepancies exist between the verified stock and the annual financial statements. While some of these may be due to differences in coverage and timing of submissions, there are issues with the definition and recognition of arrears that do not encourage their full disclosure.

MoFPED does not have a comprehensive, transparent and credible arrears clearance strategy. Though regular annual budget provisions are made, the criteria for prioritization are not clearly set out, in part due to the absence of ageing and other factors. Given the magnitude of the stock and escalating interest costs, the current liquidation policy is unrealistic and is leading to only a recycling of arrears. While the current verification process provides a sound baseline, there is scope for detailed classification and further due diligence to ensure the process is seen as fair and open.

Arrears are viewed as a historic problem which detracts attention from addressing the accumulation of new arrears. Increases across all expenditure categories are attributable to factors across the PFM cycle. These include inadequate linkages of medium-term expenditure priorities with the annual budget, weaknesses in costing of development projects and monitoring of multi-year commitments, and the prevalent cash rationing regime. Commitment controls are weak and cover only purchase type items and not all categories of expenditure.

Based on a review of the progress, the following key recommendations are made:

- Reconcile the verified stock of arrears with those reported in the annual financial statements.
- Issue consolidated guidelines on recognition, ageing, settlement and reporting of arrears.
- Complete verification for BCG and establish mechanisms for regular reporting and verification of arrears by local government and the broader public sector.
- Develop and publish an arrears clearance strategy including prioritization criteria, liquidation policy and institutional responsibility for monitoring and clearance of arrears.
- Ensure line ministries provide for arrears clearance in their budgets and work plans.
- Improve recording of all commitment into the integrated financial management system, implement the contracts management module and focusing of expenditure controls at the stage of commitment and not payments.
- Develop and implement the projects and contracts database including functionality for full costing of projects and disaggregated future commitments.

A. Background

3. Expenditure arrears are not a new phenomenon in Uganda. They became a problem in the late 1990s that led to the establishment of a commitment control system aimed at monitoring and controlling the growth of arrears.¹ Initially the commitment control system was quite effective in controlling commitments and new arrears up until the mid-2000s, when the problem resurfaced. A subsequent FAD-led mission in 2005 reviewed the expenditure control system and provided assistance in strengthening the expenditure control framework and decisively addressing the problem of generation of all types of expenditure arrears.²

4. The findings of the public expenditure and financial assessments (PEFA) for Uganda attest to the persistent nature of the problem. Uganda has undergone three PEFA assessments (2006, 2008, 2012). Table 1 shows scores against selected performance indicators (PI): for managing payment arrears (PI 4) and other related indicators that measure budget reliability (PI 1, PI 2, and PI 3) and effectiveness of commitment controls (PI 16 and PI 20). The scores relating to budget credibility show a downward trend over the last assessment. The PI relating to payment arrears has persistently scored low since 2006 and displaying a strong correlation between the level of arrears, effectiveness of commitment controls and credibility of the budget.

Table 1. Uganda: Scores for Selected PEFA Indicators

PI	Feature	2006	2008	2012
1	Aggregate expenditure out-turn compared to original approved budget	B	B	C
2	Composition of expenditure out-turn compared to original approved budget	C	C	D+
3	Aggregate revenue out-turn compared to original approved budget	A	A	D
4	Stock and monitoring of expenditure payment arrears	D	D+	C+
16	Predictability in the availability of funds for commitment of expenditures	C+	C+	C+
20	Effectiveness of internal controls for non-salary expenditures.	C	C	C

Source: Uganda PEFA Reports

5. This mission follows up on the 2016 FAD-led Fiscal Transparency Evaluation (FTE).³ The FTE assessed the level of expenditure arrears to be around 1.5% of GDP at the end of June 2015. It also pointed out that despite the clearance of known arrears in 2014/15, the domestic arrear stock had increased and was larger than previously thought. The evaluation concluded

¹ B. Potter et al; *Uganda: Improving control over public expenditure*, FAD, 1997.

² P. Khemani et al; *Uganda: Addressing domestic arrears: a reform agenda*, FAD 2005.

³ Suzanne Flynn et al. *Uganda: Fiscal Transparency Evaluation*, FAD; 2016.

that current weaknesses in the PFM cycle contributed to the persistent accumulation of arrears. These included: lack of budget realism; ineffective expenditure planning and controls; lack of regular and comprehensive reporting of arrears.

6. MoFPED has undertaken a number of measures to address the problem of arrear accumulation. The current PFM Reforms Strategy 2014–18 seeks to address areas extending from budget planning and presentation, implementation of IFMS, procurement, internal and external audit.⁴ The strategy acknowledges the challenges around the accumulation of domestic arrears and focuses on monitoring and reporting thereof. Corrective actions have been taken to reduce expenditure arrears and mitigate related fiscal risks, these include: prepayment of utilities, verification of the salary and pension payroll and linking it with the national ID system, decentralization of the salary and pension payroll to government entities, annual budget provision of UGX 80 billion for clearance of arrears that has been increased to UGX 111 billion from FY 2016/17, making arrears payment the first call on budget resources, adoption of semi-annual reporting of arrears, and verification of the stock of arrears by the Internal Audit and Inspectorate Directorate (IAD) to ensure consistency in arrear reporting.

7. The Public Finance Management Act, 2015 (PFMA) has reasonable provisions on budget preparation, expenditure control and financial reporting. It prescribes the responsibilities and reporting requirements of Accounting Officers (AO) as it relates to proper accounting of public resources by obligating the AO to commit the approved budget on the basis of the annual cash flow plan; quarterly reporting of expenditure commitments; and prohibits AOs from obtaining goods and services on credit during budget execution from foreign companies. In addition, the PFMA and its accompanying regulations have clear rules on: virements; monitoring of multi-year commitments including a statement on multi-year commitments to be submitted as part of the annual budget to the Parliament; and submission of a summary statement of commitments outstanding for supply of goods, works and services for each vote at the end of the financial year (FY) and its consolidation as part of the annual financial statements. The PFMA provides for the personal accountability of AOs in budget execution and considers incurrence of unauthorized expenditures and commitments as an offence. The act is only in its second year of implementation and MoFPED has taken steps to enforce the reporting and accountability requirements provided in the Act.

8. Despite these measures, expenditure arrears have continued to accumulate in Uganda. It is likely that the stock of arrears may have been higher than previously reported as there have been issues of consistency in arrears reporting and the action to reconcile and validate the stock of domestic arrears has been delayed. Increasing domestic arrears have been a concern under the IMF's Policy Support Instrument and MoFPED is committed to annual reporting of the stock of arrears at the end of the FY, semi-annual reporting of the stock of

⁴ Uganda PFM Reform Strategy 2014–18, Ministry of Finance.

unpaid bills and taking steps to prevent future accumulation of arrears. The recent IMF staff visit underlined the importance of reducing and monitoring expenditure arrears that continued to undermine the budget process.⁵ To prevent further buildup of arrears and strengthen arrear reporting and expenditure controls the MoFPED has requested technical assistance from East AFRITAC.

B. Mission Methodology

9. The scope of the mission was confirmed during an initial meeting. It was agreed that the mission would review the current stock taking exercise for expenditure arrears; identify weaknesses in existing budget planning and expenditure controls that contribute to accumulation of arrears and recommend changes to strengthen these processes; and advise on the strategy and process to clear the existing stock of arrears. It was also agreed that the mission would meet with selected entities to get a better understanding of the issues.⁶ The mission assessed the progress and plans and identified emerging issues through document review and discussions with different stakeholders.

10. The mission acknowledges the cooperation and assistance provided by and the discussions held with the senior officials of MoFPED. The mission benefitted from its meetings with Keith Muhakanizi, Permanent Secretary/Secretary to the Treasury; Lawrence Semakula, Accountant General; Kenneth Mugambe, Director Budget; Lawrence Kiza, Director Economic Affairs; Fixon Akonya Okonye, Director, Internal Audit and members of staff from these Directorates. It also held useful discussions with Ms. Keto Kayemba, Asst. Auditor General; Muvawala Joseph, Executive Director, National Planning Authority; Ms. Catherine Musingwiire, Permanent Secretary, Ministry of Public Service; Benjamin Kumumanya, Permanent Secretary, Ministry of Local Government and members of staff from these entities. In addition, the mission also met with officials from the Ministries of Education and Sports, Justice and Constitutional Affairs, Local Government and Uganda National Road Authority. The information shared during these meetings enhanced the mission's understanding of the progress achieved and the outstanding issues and thus informed its conclusions. The findings and recommendations in the report were validated during extensive discussions with the officials of MoFPED and presented in a wrap-up workshop. The mission is grateful to Kigenyi Daniel and Barbara Nakintu for coordinating its work.

C. Mission Outputs

11. The output from the mission comprised: practical guidance on management and prevention of expenditure arrears including reviewing the current process for reporting; advising on a strategy for clearance of the existing stock and constraining further

⁵ Seventh review under the PSI – Staff report, IMF, January 2017.

⁶ These included the Ministries of Justice and Constitutional Affairs, Education and Sport, Local Government, Public Service, Uganda National Roads Authority and National Planning Authority.

accumulation of arrears; and a wrap-up workshop with senior officials of the MoFPED; and this aide memoire, which following this introductory section is structured as follows:

- **Section II** – assesses the comprehensiveness of the existing stocktaking exercise and recommends additional measures to ensure adequate coverage and quality of reporting on expenditure arrears.
- **Section III** – assesses the current steps to reduce the stock of arrears and proposes a strategy to clear the stock of arrears over the medium term.
- **Section IV** – reviews current practices at each stage of the budget cycle and proposes measures to prevent or at least minimize the risk of accumulation of new arrears.
- **Appendix I** – Action plan for clearance and prevention of arrears.
- **Appendix II** – Definition for major category of expenditure arrears.
- **Appendix III** – Note on court awards.

II. REPORTING OF EXPENDITURE ARREARS

A. Stock of Verified Arrears

12. The IAD verification exercise shows a significant increase in the stock of arrears. The stock of verified arrears over the last three years has increased from UGX 1.4 trillion to UGX 2.7 trillion, equivalent to an increase from 2.03% to 3.20% of GDP. Table 2 below indicates the growth in the stock of arrears as a percentage of GDP. This stock, for reasons discussed later in the section, though is not likely to be comprehensive even for the budgetary central government.

Table 2. Uganda: Arrears as Percent of GDP¹

	Arrears (bn)	% of GDP
2013/14	1,434	2.03
2014/15	1,390	1.78
2015/16	2,701	3.20

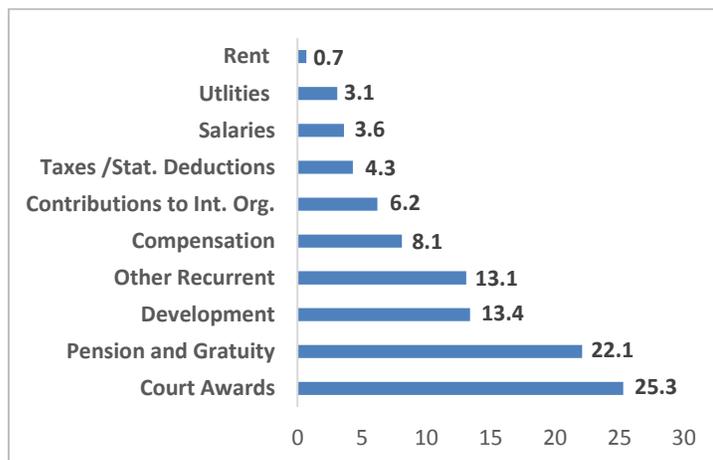
Source: Internal Audit Department, MoFPED.

¹GDP at current market prices is based on government calculations.

13. This increase of over ninety percent in FY 2015/16 has been attributed to a variety of reasons by the authorities. These include implementation of the Presidential pledge relating to payment of pensions and gratuity for veterans that accounts for forty percent of the growth, increase in court awards and compensations and the rising interest component of the old court awards, recognition of arrears in new entities like the Kyambogo University and Uganda National Examination Board that have been included as votes, arrears on account of negotiated salary enhancement for Makerere University and arrears on account of taxes and statutory charges to

be paid by government under the tax holiday schemes and as part of counterpart funds under development projects (e.g. VAT). In the absence of an ageing analysis however, it is difficult to determine how much of this increase is attributable to new arrears incurred in FY 2015/16. Figure 1 provides the breakdown by expenditure category for the stock of verified arrears as at June 30, 2016.⁷

Figure 1. Uganda: Verified Arrears by Expenditure Category (%) June 2016



Source: Internal Audit Department, MoFPED.

14. Arrears have increased under each category of expenditure category. Table 3 analyzes the increase in the stock across all expenditure categories. Court awards and compensations continue to constitute the largest component of the arrears stock, ranging between 35–40 percent. There has been a significant increase in arrears relating to personnel costs that include arrears on account of salary, pension and gratuity that have increased from 1.6 percent to 25 percent over the last two years. The arrears on development expenditure; and goods and services that include utilities, rent and other recurrent expenditure have increased in aggregate terms and account for 40 percent of the total stock.

Table 3. Uganda: Increase in Verified Arrears (UGX billions) FY 2014–16

Category	2013/14	2014/15	2015/16	Increase
Utilities	136.0	48.1	83.3	35.2
Rent	25.4	21.8	18.9	(-)2.9
Salary Arrears	2.2	13.1	96.2	83.1
Pensions and Gratuity	21.0	26.5	597.9	571.5
Other Recurrent	183.7	226.3	353.7	127.5
Court Awards	448.4	477.7	684.4	206.7
Compensation	64.6	88.4	218.9	130.5
Contributions to Int. Org.	139.0	139.8	167.5	27.6
Development	377.7	288.8	363.1	74.2
Taxes / Other Statutory Deductions	35.6	59.0	116.4	57.3
Total	1,434.0	1,389.9	2,700.7	1,310.7

Source: IAD, MoFPED .

⁷ The expenditure category used here are those that have been used by MoFPED for reporting purposes.

15. These arrears exist across entities of the central government but the majority relate to only a few votes. Table 4 identifies these votes for the verified stock of arrears as at June 30, 2016. The top five votes account for 72.5 percent of the verified stock and around 91 percent of the verified arrears are with only thirteen votes. This concentration in the stock of arrears should enable MoFPED to construct an institutional profile and establish mechanisms for closer monitoring of entities that are more prone to arrears.

Table 4. Uganda: Arrears by Votes on June 30, 2016

Entity	Total verified arrears	
	UGX Bn	%
Ministry of Defense	718.4	26.6
Ministry of Justice and Constitutional Affairs	684.7	25.3
Uganda National Roads Authority	283.8	10.5
Ministry of Finance, Planning and Economic Development	139.5	5.1
National Medical Stores	137.2	5
Makerere University	130	4.8
Uganda Land Commission	124	4.5
Ministry of Water and Environment	51.6	1.9
Uganda Prisons	49.9	1.8
Ministry of Foreign Affairs	47.3	1.7
Office of the President	37.1	1.3
Ministry of Local Government	31.5	1.1
Uganda Police Force	27.3	1
Other Entities (55)	237.8	8

Source: Internal Audit Department, MoFPED.

B. Issues in Reporting of Arrears

16. The recently concluded verification exercise started in FY 2015/16 and is the most comprehensive one carried out by MoFPED. The internal audit units in line ministries are entrusted with the responsibility for verifying the authenticity of the arrear claims. Guidelines and reporting formats have been issued by the PS/ST to support the process. The format requires the submissions to be certified by the Accounting Officers, head of accounts and the internal audit of the respective votes. The IAD in MoFPED plays a coordinating role in the process and consolidates the submission to arrive at the stock of verified arrears for central government votes. It also reconciles this with outstanding commitments as reported by the entities to the Accountant General's Office (AGO) in their annual financial statements.

17. Inconsistency still persists in the reporting of arrears. Outstanding commitments/payables as at the end of the FY are reported in the consolidated annual financial statements by the AGO. Table 5 provides a comparison of the outstanding commitment as reported in the financial statements with stock of arrears as verified by IAD for the last three years. Significant differences are apparent and though the financial statements provide a vote-wise breakdown of the outstanding commitments they do not provide a category-wise breakdown. Expenditure

arrears that would normally be considered a sub-set of accounts payable, are always greater than the outstanding commitments in the consolidated financial statements and the variance has increased to around 20 percent for FY 2015/16. This has been adversely commented upon by the Auditor General and is one of the reasons for the qualified opinion issued on the consolidated financial statements for FY 2015/16.⁸

Table 5. Uganda: Arrears and Payables in Annual Financial Statements
(UGX billions)

	Arrears as reported in AFS			Verified stock (IAD)	Difference
	Pensions	Others	Total		
2013/14	122.4	1,265.4	1,387.8	1,434.0	-46.2
2014/15	216.7	1,108.4	1,325.1	1,389.9	-64.8
2015/16	561.4	1,692.9	2,254.3	2,700.7	-446.4

Source: Annual Report 2015/16, Office of Auditor General.

18. Remedial action to identify and rectify these variations are yet to be taken by MoFPED. The reasons for variations that came out during discussions with the IAD and AGO include differences in the timing of verification of claims and submission of returns to the IAD and the submission of annual financial statements to the AGO; coverage of the IAD exercise and the financial statements—for example, Uganda Revenue Authority, Makerere University, and National Medical Stores are not included in the consolidated financial statements but are included in the IAD arrear report; and the process of recognition and reporting of arrears through the two channels. The *IFMS End of Year Financial Procedures 2016* specify that financial statements where arrears/payables reported differ from those in the certificate issued by internal audit would not be accepted by AGO. This has not been complied with and the mission could not ascertain if the reasons for variations have been fully investigated and corrective action taken to reconcile these inconsistencies.

19. The current verification exercise though wide-ranging is not comprehensive in establishing the total stock of arrears. The verification exercise is useful in establishing an indicative level and illustrating a trend in accumulating arrears for the budgetary central government. The reliability, coverage and accuracy of the verified stock is uncertain and the stock figure may be higher than what has been revealed by the recent verification exercise. This may be due to the following factors:

- **Partial coverage of budgetary central government** – the verification exercise is concentrated on central government votes. Though the stock of arrears for subordinate entities is expected to be collated by the administrative ministry, IAD referred to variable practices amongst entities. While it includes some autonomous agencies, it does not cover

⁸ Annual Report of the Auditor General on the Financial Statements of GoU for the FY ended June 30, 2016.

some central government votes like the Kampala Capital City Authority (KCCA) and the controlled entities receiving subventions from the administrative Ministries e.g., in the Ministry of Education.⁹ In addition, there are instances of non-submission (13 entities) and under-reporting of the verified stock of arrears from some entities. There are also constraints of mandate, capacity and resources in IAD that prevent a more comprehensive coverage of the verification exercise.

- **Incomplete coverage of local government** – the current stocktaking and verification exercise does not cover the local government votes. The local governments submit financial and budget performance reports to the Ministry of Local Government but information on arrears in local government is not systematically collected.¹⁰ AGO in compliance with the PFMA has for the first time consolidated two sets of financial statements for district local government and municipal councils for FY 2015/16 that report total outstanding commitments at UGX 25.9 billion out of which UGX 10.7 is on account of pension arrears. This stock however, does not provide the complete picture and has not been verified.
- **Coverage of public corporations** – Assessment of the full scale of arrears for the public corporations has also not been done. The Auditor Generals' report for 2015/16 refers to arrears at these entities including the Uganda Railways of UGX 14 billion and inter-entity arrears between the Uganda Property Holdings Limited and KCCA of UGX 2.16 billion. The framework for oversight of public corporations as provided in the PFMA only requires AGO to prepare a consolidated statement of financial performance of the public corporations. This consolidation however, was only partially done for FY 2015/16 and does not provide an assessment of any arrears being carried by the public corporations.
- **Omission of expenditure categories** – there is lack of clarity in the MoFPED instructions that leads to non-inclusion of certain category of expenditure arrears (salary, pension, and gratuity) in the financial statements. The IAD verification exercise has not been concluded across all expenditure categories for all votes specially for salary and pensions that was decentralized to the MDAs from July 2014 and July 2015 respectively. For example, the Ministry of Education and Sports reported that the verification of arrears on account of salary, pension and gratuity has not been completed and are not included in the returns submitted to MoFPED. In addition, the arrears on account of refund of taxes are not systematically reported and included in the verified stock.¹¹
- **Absence of an ageing analysis** – the entities met by the mission confirmed that they had information on the age of the arrear claims. Instructions issued by PS/ST also require AOs to

⁹ The verified figures for Ministry of Education and Sports only include arrears for HQ and not for around hundred tertiary technical institutions.

¹⁰ Recent media reports suggest a figure of UGX 1.2 million is owed by Jinja Municipal Council for electricity.

¹¹ There are some debt payments (US\$ 80-90 million) that are known to be outstanding and these are attributed to the old pre-HIPC commitment, are being contested and not included in the arrear stock.

provide information on the period in which the arrears were incurred. However, the IAD consolidated report does not analyze the arrears by age. In the absence of an ageing analysis it is difficult to arrive at the stock and flow of arrears during the reporting period.¹² Standard reporting templates should require recording of the date of invoice and when the obligations became due for payment; and a categorization of arrears/unpaid bills by period (e.g., 30 days or less; between 30 and 90 days; between 90 and 180 days; and more than 180 days). This categorization is required for closer monitoring of new arrears incurred during the reporting period and will enable enforcement of accountability requirements for AOs. It also has implications for the prioritization in liquidating arrears as discussed in Section III of the report.

20. Reporting of arrears needs to balance aspects of deterrence and legitimacy. Whilst arrears are undesirable and need to be prevented, their reporting is an acknowledgement of their existence. Emphasis on reporting and deterrence can thus signal on the one hand, government's willingness to pay and on the other, MoFPED's enforcement of accountability of line ministries. Both scenarios can encourage adverse behavioral responses like generation of fraudulent arrear claims or concealment. This can be addressed by a clear and appropriate definition of arrears in Uganda that is consistently applied across the public sector.

21. The current definition of arrears does not facilitate effective arrears management. It also affects the ability to institute remedial measures in a timely manner. As per the memorandum of understanding with the IMF set out in the second PSI review, arrears are seen as the stock of unpaid bills at the end of the year. Unpaid bills include verified outstanding payment owed by a government entity for the following categories of expenditure: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes and other deductions. This does not recognize that arrears can arise during the year and the existence of arrears is not confined at the year-end.

22. A clear definition of expenditure arrear will ensure complete and consistent coverage in terms of reporting and improve the transparency of the whole process. Incorporating the concept of due date and expanding the categories of expenditure in the unpaid bills definition above should serve the purpose. Internationally, government expenditure arrears are defined as: *"financial obligations that have been incurred by any level of the public sector for which payments have not been made by the due date. Payments may be overdue based on a particular legal obligation (such as payment of social security benefits, or salaries), a specific contractual commitment (such as payment for construction of a road), or a continuing service arrangement (such as payment for electricity supply). The value of expenditure arrears constitutes the amount of the original overdue payment, as well as any interest or financial penalties that the government might accrue (and not pay) as a result.* Appendix II provides detailed clarification and

¹² An ageing analysis of the arrears on court awards done by the mission suggests that around 80% of them are more than one-year-old.

guidance on the definition of arrears in context of the different stages of the expenditure process and as it relates to different categories of expenditure.

23. The frequent instructions issued by MoFPED are not clear and may not encourage full disclosure of arrears in the financial statements. These instructions, issued over the last two years relate to the issues in budget execution and reporting as they relate to the problem of arrears. These instructions cover different aspects of deterrence, recognition and mis-reporting of arrears; are scattered and at times lack clarity. For example, the instructions issued for verification of arrears through IAD require reporting for a broad set of expenditure categories which are not the same as those required to be reported in the annual financial statements.¹³ Mission's interactions with the ministries suggests that there is no uniform understanding in the line ministries of the recognition of arrears in the financial statements. There is a need to review and consolidate these instructions that have been issued on arrear recognition, reporting and settlement.

24. In-year reporting of arrears is not well understood and established in Uganda. This is attributable to the way arrears are recognized in Uganda—as commitments outstanding at the end of the financial year. This restrictive definition limits any meaningful recognition of arrears arising during the year and does not facilitate periodic in-year reporting of arrears. MoFPED is committed to semi-annual reporting of the stock of unpaid bills and publication of reconciled reports on domestic arrears under the Policy Support Instrument program with the IMF. This however, has not been done on a regular basis because of the delays in the verification exercise. Closer monitoring and more frequent reporting of arrears will help to enhance the credibility of future years' budgets. And once the definitional aspect has been clarified. MoFPED in addition to semi-annual reporting should consider quarterly reporting of unpaid bills in line with good international practice for entities that have been more prone to incurring arrears in recent years.

25. Reporting of arrears should be part of the MoFPED regular financial reporting framework. Currently the responsibility for consolidated reporting and reconciliation of verified arrears rests with the IAD. While the role of internal audit units in verifying the arrears and the practice of joint certification of arrear reports are good practices, the role of IAD should be restricted to providing guidance and quality assuring the verification process. Considering that arrear reporting is a sub-set of the financial reporting function, the AGO should have the responsibility for consolidating the reports, monitoring its clearance, reconciling it with outstanding commitments being reported in the financial statements, and maintaining a central database for all verified arrears as discussed in the next section of the report. The work allocation for different departments of MoFPED available on the website indicates that monitoring and reporting of arrears is the responsibility of the Treasury Services under the AGO. It is important to clarify and operationalize this responsibility as part of the wider financial reporting function.

¹³ MoFPED Circular on Domestic Arrears, November 2016.

Recommendations

- Issue updated and consolidated guidelines on recognition, settlement and reporting of payment arrears and unpaid bills including a clear and consistent definition of arrears; and clarify the institutional responsibility of AGO in reporting and monitoring of arrears and commitments (April 2017).
- Identify and reconcile the differences between the stock of verified arrears and those reported in the consolidated financial statements for FY 2015/16 and publish the report (April 2017).
- Include an ageing category for all reported and verified arrears and unpaid bills in the consolidated reports and the annual financial statements (April 2017).
- Complete the stock-taking and verification exercise for budgetary central government—sub-vented agencies and all categories of expenditure and publish reports on domestic arrears on the MoFPED website (June 2017).
- Operationalize semi-annual reporting of arrears, unpaid bills and commitments and move to quarterly reporting for entities that are more prone to accumulating arrears (July 2017).
- Establish mechanisms for regular reporting, monitoring and verification of arrears incurred by local government (September 2017).
- Clarify the responsibility and establish processes for regular monitoring and oversight of public corporations (December 2017).

III. DEVELOPING AN ARREARS CLEARANCE STRATEGY

A. Current Status

26. Uganda does not have an official arrears clearance strategy. Annual provisions in the budget to mitigate the problem have been made and a number of measures, as discussed in other sections of the report have been implemented to minimize future accumulation. In addition, MoFPED has also initiated negotiations for reducing and freezing the interest on some of the older court awards. They have also issued a number of directives to mitigate the problem.¹⁴ However, these have only partially addressed the issue. According to the Second PSI review, an arrears clearance strategy was to be developed and published by June 2014 but this has not yet been done.

27. The current practice of piecemeal liquidation of the present stock of verified arrears is unrealistic. The annual budget and medium-term budget framework (MTBF), does not

¹⁴ The Debt strategy for example, stipulates measures for reduction and eventual elimination of arrears including 1st call on next FY resources, IFMS implementation, and prepayment of utilities.

make adequate and explicit provision for their clearance. As discussed in more detail in section III, the current policy of requiring arrears to be the first call on a Vote's approved budget leads to recycling of arrears (paying old arrears while accumulating new ones) and potentially mischarging of expenditure. As shown in Table 6, the provision for arrears has been significantly below the existing stock. In most cases the budgetary provision for FY 2016/17 is significantly less than the verified stock of UGX124 billion.

Table 6. Uganda: Verified Arrears v/s Original Budget and Supplementary
(UGX billion)

	2014/15	2015/16	2016/17
Verified arrears	1434	1390	2700
Approved Budget	80	84	111
Supplementary	70	0	0
Total	150	84	111

Source: Budget Department and Internal Audit Department, MoFPED.

28. Proposed sources of funding for pensions, court awards and roads arrears seem potentially inadequate. According to the 2016/17 budget circular, liquidation of identified pension arrears is planned to be done in a phased manner. The 2016/17 budget includes a provision of UGX 50 billion with the full amount being provided in Q1. As this represents only a small percentage of the already identified pension and gratuity arrears of UGX 598 billion, the criteria to be used for these payments is unclear and could be seen as inequitable. The plans to pay the arrears of UNRA from "savings" associated with a reduction in "new" projects do not appear to take into account the existing multi-year contract commitments. Similarly, the proposal to pay the UGX 684 billion relating to court awards over three to four years may not be fully realizing the full potential for future litigation. The Ministry of Justice cites a number of cases having already been awarded since July 2016 and many more in the pipeline. As at June 30, 2016, approximately 25 percent of the total value of arrears on court awards is related to interest which may escalate if a comprehensive negotiation process is not completed at the earliest.

29. MoFPED needs to develop a comprehensive strategy for clearance of arrears. The Auditor General in his 2015 report on the management of public debt has also underlines this need. Taking his recommendations forward, an effective strategy should communicate to stakeholders the government's plan, timetable, and criteria for the liquidation of arrears, thereby minimizing any possibility for the perception of favoritism and corruption in the selection of creditors to be paid. The following key principles should guide the formulation of the arrears clearance strategy:

- Comprehensive – the arrears clearance strategy should apply to all outstanding payments of the central government, general government and public sector. Initial focus should however be on budgetary central government, progressively moving to local government and public sector over the medium term.

- Transparent – the clearance of arrears should proceed according to a public timetable and criteria for prioritizing clearance should be transparently stated and adhered to. It should be made clear that this is a one-off exercise, to avoid moral hazard.
- Credible – as discussed in more detail in the subsequent section of the report, the strategy should include measures to avoid the accumulation of new arrears, and ministries or agencies including the finance ministry that fail to implement these measures should be held accountable and appropriately penalized.
- Realistic – the government’s annual budget and medium-term fiscal projections should make adequate provision for the cash cost of arrears clearance which may have to unfold over a number of years.
- Verifiable – arrears should be verified to ensure that only valid claims are cleared.

30. A comprehensive, transparent, and credible strategy should typically follow the five steps of stocktaking, verification, classification, prioritization, and liquidation. As discussed in Section III of this report, there are contradictory views on the extent of the arrears problem, although the PFM reform strategy (2014–18) notes the need to improve the monitoring and reporting of arrears, and the recent IMF fiscal transparency evaluation highlights the scattered and incomplete recording of arrears as a fiscal risk. The IMF seventh review of the Policy Support Initiative (PSI) highlighted the issue of domestic arrear and its links to a doubling of non-performing loans (NPL) within the banking sector. By undertaking a comprehensive stocktaking and verification process, the real size of the problem can be determined, and by setting out clear classification, prioritization and liquidation criteria, accusations of favoritism or cronyism can be mitigated.

31. The negative implications of accumulation and failure to eliminate arrears needs to be understood within government and more broadly amongst politicians and public. There is recognition amongst government of the impact of arrears. In his state of the nation address, the President noted the negative impact on the private sector suppliers of delayed payments. In order to mitigate the problem, the Budget Call Circular for 2016/17 advises that payments should be made within 14 days of the receipt of the invoice. In addition to private suppliers’ liquidity problems, expenditure arrears often lead to: extra costs to the public sector as businesses charge premiums on services to mitigate against delayed payments, increased rent seeking opportunities and deterioration in the delivery of basic services.

B. Stocktaking and Verification Process

32. Although MoFPED has made an important start to the establishment of its arrears position, a wider stock-take of arrears is still needed. Some of these issues with the coverage and quality of reporting have been discussed in the earlier section of the report. Addressing these will enable an understanding of the full extent, composition, and age of the government’s unpaid financial obligations and help in prioritizing their clearance. In order to ensure the integrity, timeliness and completeness of the process, it will be necessary to set out: (i) a clear

timetable with cut-off date for inclusion of new arrears; (ii) a clear definition of arrears and unpaid bills; (iii) the sanctions for non-reporting and fraudulent claims (iv) clear instructions on the coverage of the exercise i.e., all central government votes; all local government votes; all government institutions such as training institutions (with no separate vote); all statutory corporations, statutory funds or pension schemes e.g., Uganda Communications Employees Contributory Pension Scheme.¹⁵

33. AOs in each ministry need to take responsibility for their own arrears data for both the ministry itself and each of its subordinate agencies including state corporations.

Sanctions for AOs and any delegated official for non-reporting, fraudulent, and incomplete reporting of arrears should be announced and enforced. As is currently done, formal certification by the AO and verification by the internal auditor should be made before lists on outstanding payables are submitted to the MoFPED.

34. It is important that a stringent and transparent verification process is undertaken.

The verification process conducted by internal auditors follows guidance from the PS/ST and normal audit procedures. In addition to normal checks and balances, it would also be prudent to check the reasonableness of utility bills; review areas (on a sample basis) where no arrears have been reported; confirm that development expenditure bills (including taxes) have not been paid by development partners and ensure that interest payment where applicable have been calculated correctly and there are no duplicate payments for salaries, pensions and court awards. Records of all claims should be reported including those that have been rejected. Contestable claims should be referred for independent arbitration (e.g., arrears committee, Auditor General or Inspector General) and should in all cases require proof from the supplier e.g., recorded in accounts receivable ledger, invoice and goods delivery note.

35. In addition to the verification by the organization's own internal audit unit and the auditor general's post payment audits some claims may require additional validation.

MoFPED could consider a threshold above which all arrear claims and a random selection within the smaller claims that should be subjected to independent tests to verify their existence, validity, value, and age. These additional checks and balances are important to enhance the legitimacy of the process and to avoid questions of malfeasance. In order to ensure value for money and ensure that claimants (particularly the vulnerable) are fairly treated, this second verification process should be done by either independent auditors appointed by the Auditor General or a small central team of external/internal auditors depending on the category of expenditure. Some guidance on how this could be done for each category of expenditure is provide below:

- Goods, works and services contracts – independent auditors, checks should include government and supplier records.

¹⁵ According to the Auditor General's report of 2015/16, pensioners are owed UGX 2.6 billion.

- Salaries and pension¹⁶ – government team
- Court awards – government team charged with the responsibility of ensuring that duplicate records are not maintained at the originating ministry and to ensure the correctness of the charge.
- Utilities and rent – government team should check original documentation where appropriate, check suppliers' records and assess reasonableness of claim.
- Compensation – Independent auditors
- Contributions to international organizations – government team should confirm records with respective international organizations.
- Taxes and other statutory payments – government team, taking full account of the legal framework with regard to disclosure of tax payer records, should undertake checks with the revenue agency to ensure that suppliers are registered taxpayers and establish whether they have other indebtedness to government.
- Social security and similar contributions – government team to check with relevant institution e.g., NSSF.

36. A consolidated database of all verified claims should be established. This would expand on the work already done by the IAD. This stocktaking and verification exercise should result in a consolidated database (Excel or Access Based) of all verified claims for payment. In order to ensure that the stock is eliminated a regular reporting framework as discussed in the previous section will need to be designed and implemented.

37. Given the scope of the exercise it will also be necessary to establish a temporary unit in the AGO with the allocated responsibility for management of the database. The unit will have a specified life and will close once all valid claims have been liquidated. It should be responsible for the management of arrears database, administering centralized payments and monitoring and reporting on the arrears management process. The Unit should report to a small high-level committee comprising of e.g. the PS/ST, Account General, Auditor General, Director of Budget, Debt Management Commissioner and have a clear and publicly available mandate with respect to prioritization and liquidation.

38. Once the arrears stocktaking and verification process is complete, the agreed list of arrears should be made publicly available on the MoFPED website. To avoid moral hazard, it should be made clear that this is a one-off exercise and will not be repeated. This notification could also be used to reiterate the government's procurement policy on accepted documentation, standard rates etc.

¹⁶ The 2015/16 Auditor General's report has noted based on a small sample, UGX 53 million of questionable pension payments. Particular attention should therefore be paid to ensuring the legitimacy of these claims.

C. Classification and Prioritization

39. A complete database should have sufficient information to allow classification and transparent prioritization of arrears. Currently there is no age profile and limited information on interest and penalties. In some cases, the claims are also aggregated making a transparent payment process difficult. Information maintained for each arrear claim should include: (i) agency (MDA, State Corporation or local government); (ii) creditor (employee, private supplier, social security agency); (iii) age (based on the date on the invoice/due payment date); (iv) budget expenditure classification; (iv) currency (local or foreign); and (v) Contractual terms – interest/penalties for non-payment.

40. Transparency in the payment process is of paramount importance and sends the right message to stakeholders and the public that the process is robust and fair. Currently the prioritization of payments is not clearly set out and consequently accusations of favoritism or cronyism could be leveled at the process. Prioritization presently, appears to be based on potential further litigation and/or presidential directives or in direct response to financial predicament of e.g. utility provider. Good practice recommends that payment or liquidation of obligations should only begin once the criteria for prioritization have been established and published. Failure to adopt this principle exposes the government to public and media critique.

41. Criteria should be established for the obligations to receive priority in the settlement of individual arrear claims. Factors that may be considered in prioritization could include: (i) socio-economic impact – vulnerable or sensitive sectors e.g., non-payment of low-paid workers; (ii) age – older priority over newer; (iii) cost – those accruing penalties and interest should have priority; (iv) risk – those resulting in legal action, industrial action etc. should have priority; (v) currency – in times of domestic currency devaluation foreign denominated debt could be prioritized. The strategy should also define the governance arrangements for prioritization and payment decisions in local governments and public corporations. It is important that such decisions are made transparently and within clearly laid down and publicly available criteria and payments are made in line with these criteria.

42. Information from the database should be used to review the types of arrears, their vintage and the spending agencies generating arrears. This will help to identify the underlying causes e.g., poorly costed budgets; lower than approved budget releases during the year; excessive rental agreements, poor contract management, and non-commitment of all known expenditure, so that the remedial policy decisions and actions to address the problem can be identified, agreed, and implemented.

D. Liquidation of Stock of Arrears

43. Agreeing upon a liquidation policy is a key element of an arrears strategy. The liquidation policy will: (i) consider whether legitimate claims would be honored in full or if

some form of discount can be agreed; (ii) determine the form of financing and timeframe for settlement; and (iii) the responsibility for administering payments.

44. While some countries agree with their creditors to make only partial payments, this discounting process or “haircut” does have a number of pitfalls. Though it reduces the immediate cost to government, the approach should be treated with caution, since it can have the effect of increasing costs in the future. Suppliers may inflate prices for further supplies in anticipation of an expected future discounting. It could also give rise to rent-seeking and potentially increase legal action and consequent increase in court awards. In the case of court awards as discussed earlier, MoFPED is trying to follow a similar approach by negotiating a reduction in past interest costs and freezing interest rates from a negotiated date.

45. Netting arrangements, such as offsetting the settlement of arrears to the private sector against tax obligations, are not advisable. Such arrangements do not constitute a transparent mechanism and could lead to fraudulent or corrupt practices. The full extent of inter-entity debt in the Ugandan public sector is not yet known. However, the 2015/16 Auditor General’s report identifies some overpayment of funds to UMEME and these will need to be taken into consideration when reviewing the overall situation. The arrears for VAT on donor-funded projects has arisen due to the change in policy on exemption status. As from a government perspective, the net position should be zero, any failure to include this in the expenditure budget is unclear.

46. The form of settlement and timeframe are dependent on several factors, notably the size and nature of the claims. The standard practice would be to settle claims with cash payments financed through either revenue receipts or new borrowings. Consideration may be given to settling larger amounts through securitization. Some of the pros and cons of the alternative options include:

- Cash expenditure budget - the timeframe would depend on the fiscal space and may need to be spread over several years increasing the risk of an even greater tendency to seek judicial relief through court rulings. The method will also divert resources from planned activities.
- Borrowing - the proceeds of new loans could be applied to make cash settlements of the arrears. The borrowing would need to be compatible with the medium term debt strategy (MTDS). The method may be suitable for settling the arrears on court awards but is not without moral hazard.
- Securitization - delays the need for government to obtain financing until a later date, at which time the fiscal situation may have improved. It allows the government to phase the impact of large payments of arrears, but should only be done in accordance with the MTDS, and should be done only as a last resort. The range of securitization options includes issuing promissory notes discountable by commercial banks that cannot be repurchased by the central bank; marketable treasury bills, or bonds directly to creditors. Experience in other countries shows that it provides strong incentives for continued fiscal indiscipline, limits

prioritization and as instruments almost always trades at a considerable discount, increases the potential for future higher pricing by suppliers.

47. Currently many court judgements are awarded with significant interest and/or are pursuing further litigation measure. Without renegotiation of terms, this is an extremely expensive form of debt. If there is insufficient fiscal space and with the potential for future litigation as in the case of recent Mandamus ruling, consideration could be given to specific government borrowing to liquidate these arrears. Similarly, socio-economic factors whereby citizens have not been fairly treated by government practices, could favor a more immediate rather than phased solution. However, this approach does not come without moral hazard and a potential increase in companies/individuals going to court.

48. In some countries, MDAs are required to finance payment of arrears as a specified percentage of their outstanding stock from efficiency savings in their own budget. This practice serves as a sanction for poor budget preparation and financial management, particularly fiscal indiscipline, emphasizes that the responsibility for incurring arrears ultimately rests with the institution and requires MDAs to critically assess and prioritize, in particular investment projects. However, in Uganda it may encourage non-declaration of arrears. In addition, MoFPED would need to establish that it has not underfunded the approved budget and that funds have been provided in a timely manner.

49. The liquidation strategy should specify the responsibility for processing (administering payments, reporting, monitoring progress) the claims for arrears. This should be done in accordance with the agreed prioritization and timeframe. In some countries and/or for some categories of expenditure, the liquidation of outstanding stock is handled by the Ministry of Finance. As noted earlier, it is foreseen that the unit in AGO will carry out some payment duties. While this may be contrary to good accountability practices, paying creditors directly from the center provides a greater degree of control and transparency. Without close monitoring, transferring funds to the affected entities may run the risk of the funds being diverted to other payments.

50. Funds specifically allocated for arrears clearance should be assigned to a specific budget line. Additional provisions through the supplementary budget process should be accompanied by relevant documentation to be submitted to Cabinet and approved by the Parliament. Inclusion of such information would enhance transparency and help to mitigate accusations that supplementary budgets for arrears are being used inappropriately. Any planned expenditure to be incurred in future financial years should be clearly set out in the medium-term budget strategy.

Recommendations

- Establish a temporary unit in AGO responsible for management of the clearance of the identified stock and a high-level committee for oversight purposes (April 2017).

- Develop and disseminate a comprehensive arrears clearance strategy including prioritization criteria and liquidation policy (June 2017).
- Complete a comprehensive stock take and verification exercise to include all arrears across government, focusing initially on BCG and extending the scope to local government and the wider public sector (March-September 2017).
- Maintain records of rejected and contestable claims with the latter being reviewed quarterly by independent arbitration (March-September 2017).
- Undertake an additional validation exercise on some of the identified claims and develop a comprehensive database of independently validated arrears (October 2017).
- Include a schedule of payments in the medium-term budget strategy 2018–21 (June 2017).

IV. PREVENTING FURTHER ACCUMULATION OF ARREARS

51. Within MoFPED the arrears problem is viewed largely as an historic issue, but this does not appear to be the case. Though a large part of the increase (pensions, court awards and salaries) relates to original incurrence of arrears in prior years these are only now being recognized. In addition, the lack of ageing analysis as discussed earlier masks the true picture of newly accumulated arrears. Notwithstanding large “one-off” type increases in arrears, 2015/16 still saw a worsening position on the accumulation of new arrears, across most expenditure categories, as clearly highlighted in Table 3, at Section I. The extent of the ongoing problem needs to be recognized appropriately and required actions taken, as discussed later in the section.

52. Arrears identification, verification and reporting is largely seen as a part of the year-end process. Less attention is given to in-year monitoring, management and liquidation of arrears. As a result, if arrears are starting to accumulate during the year, there is very little corrective action within that year’s budget. Arrears hinder the implementation of the budget as planned, as funds are diverted away from planned activities to clearance of the arrears. Late payment of bills (even in-year) can result in interest charges and penalties. Where the arrears are not cleared, government is being taken to court, incurring further court costs, interests and penalties. Suppliers in the knowledge that late payments are the norm increase their bid prices and front load contracts with higher advance payments. There is also an impact felt in the economy where suppliers are unable to service their bank loans, and can subsequently impact on the banking sector who have to deal with the default on the loans.

53. The accumulation of arrears emanates from shortcomings at various stages in the overall PFM cycle. These include: budget formulation, budget release and budget execution. The rest of the sections review the adequacy of budget provisions by expenditure category; the

performance of budget release; and assesses the commitment and expenditure control environment.

A. Budget Formulation

54. Revenue projections over the past few years have been reasonably realistic. Table 7 below shows for example the tax revenue performance over the past six years. With the exception of FY 2013/14 the revenue projections have been realized. At the aggregate level, the budget appears to be credible, with no chronic shortfalls in revenue. This has enabled the full release (103.8 percent) of the budget, in aggregate terms, as discussed in the next section.

Table 7. Uganda: Revenue Performance FY 2010/11 to FY 2015/16
(UGX billion)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Target	5034.37	6199.26	7284.46	8578.46	9576.59	11659.00
Outturn	5114.15	6135.94	7123.69	7950.08	9713.56	11280.40
% Perf.	102	99	98	93	101	97

Source: Tax Policy, MoFPED.

55. Budgeting and spending on certain categories of expenditures have been decentralized to Accounting Officers in a move to promote greater accountability. Items previously managed centrally included: salaries and pensions (under Ministry of Public Service); was decentralized in 2014 and 2015 respectively. There has been some decentralization of subscriptions to international organizations (previously under Ministry of Foreign Affairs). It has been proposed that new court awards (under MoJCA) will become the responsibility of the vote (through the Accounting Officer) to improve accountability for these items of expenditure and ensure the adequacy of their budget provisions.

56. The PFMA provision on virements provides a degree of flexibility for MDAs. The Act permits virement between expenditure categories up to a maximum of 10 percent of the item's budget. While providing some flexibility for MDAs in budget execution the provisions restricts any fundamental changes to the budget objectives agreed in the original appropriation.

57. The directive that arrears must be cleared as the first call on budget funds is difficult to achieve given the challenges in implementing the current year's budget. As most entities do not budget specifically for arrears, the directive impacts on the ability of the votes to implement their current work plans and undermines commitment and expenditure controls, and may encourage transactions to be made outside of the prescribed systems. At best, without arrears clearance being a mandatory activity in the annual work plan that has been budgeted for, the first concept of first call while clearing old arrears will only be replaced by newer arrears. Moreover, given the magnitude of the arrears the expectation that they should be liquidated through on-going annual budgets is not realistic. For many arrear items, the amount

outstanding would consume the annual budget provision for that item and in some instances the appropriation for the vote as a whole.

58. The common theme emerging from the mission's discussion with MDAs was inadequate budget provision that hindered implementation of their work plans. Whilst, there was a general view of under-provisioning, some expenditure items were more effected than others. Categories which incur significant arrears due to inadequate budget provision include: consumptive expenses and other recurrent transactions (ORT); subscriptions to international organizations; development including capital expenditures and government's counterpart fund contributions; and taxes and other statutory deductions often related to large scale projects and contracts. On the other hand, respective MDAs themselves continue to under budget expenditures like medicines, food and provisions for prisoners, hospitals, military and police in the expectation that additional funds could be requested for these 'unavoidable' expenditure items. This results in the inevitable consequence of further accumulation of arrears. Unless, work plans are costed properly and planned activities constrained within the budget ceilings, arrears will continue to accumulate and grow.

59. MoFPED instructions on arrears are not clear and could lead to under budgeting of some essential categories of expenditure that are prone to arrears. The November 2016 circular for example stipulated that *"with the exception of contributions to international organizations, utilities and court awards, no other arrears should be committed outside Parliamentary appropriation."* This could be seen as implicitly allowing expenditure under these categories in excess to the parliamentary appropriation and could also encourage entities to under-budget under these categories with the assumption that these are "protected."

60. The constitution makes provision for a Contingencies Fund but no funds have been allocated to the Fund in the budget. The PFMA 2015 stipulated allocation to the fund, in the amount of 3.5 percent of the appropriated annual budget, of which 85 percent was to be for supplementary budget, and 15 percent for natural disasters. The November 2015 amendment to the act rescinded the provision from the Fund for supplementary expenditure, retaining allocation of only one half of one percent for natural disasters. No allocation has been made in the budget to resource the Fund. The current situation limits GoU's ability to respond effectively to disasters and other unforeseen and unavoidable calls on financial resources. If existing appropriations are diverted to deal with these situations, this could contribute to arrears accumulation issues.

Issues relating to different categories of expenditures

61. The integrated personnel and payroll system (IPPS) now provides a robust platform for MDAs to budget for salaries, pensions and gratuities. The IPPS has undergone a lengthy exercise of cleansing and can provide a platform upon which agencies can formulate accurate budgets and manage new recruitment. The IPPS calculates the impact of increments, pay increases, and future recruitment on the payroll and on pension and lump sum gratuity amounts

for building into the budget. The Budget Directorate has undertaken to ensure the wage related budgets are provided in full. The increase in arrears on salary payments during FY 2015/16 is attributable to a decision regarding backdating of the grant of incentive allowance to employees of Makerere University for which there was no budget provision. Such policy decisions having financial implications should be funded through the budget or via supplementary to prevent accumulation of arrears.

62. Arrears for utilities and rent have seen some general improvements across the MDAs. This is the result of concerted efforts with implementation of prepayment for utilities like electricity and water. There are exceptions to this general improvement and these include Ministry of Defense, the Police and Prisons. These three votes account for UGX 76.3 billion (91 percent) of the total utilities arrears of UGX 83.4 billion as at June 30, 2016. They also accounted for an increase during the year amounting to UGX 36 billion. The mission could not ascertain the specific reasons for this increase. Budget provisions for electricity and water for these three votes has remained static between FY2014/15 and FY2015/16, totaling UGX 31.5 billion and may be inadequate to prevent further escalation of arrears and clearing the existing stock of arrears.

63. Absence of consolidated information on memberships to international organizations has led to inadequate budget provisions and increase in arrears. MDAs are responsible for prioritizing the membership to international organizations within the budget ceiling but do not have clear information on memberships that they hold. MDAs are now required to compile inventory lists of the organizations in which they maintain membership. In addition, MoFPED has also attempted to review and rationalize the membership to international organizations and this exercise needs to be completed at the earliest. Adequate provisions in the budget would then need to be made to ensure that membership dues are paid as they become due.

64. Arrears on account of court awards have been on the rise in recent years. It is estimated that more than 80 percent of them are older than a year and 70 percent of them relate to civil cases, e.g., contracts for goods and services. Appendix III discusses some of the main features of the arrears arising out of court awards. Only token budgetary provisions for court awards have been made in recent years which are not sufficient to clear the existing stock. The issues around clearing of this stock have been discussed in the previous section of the report. In addition, the contingent liability relating to ongoing court cases has been assessed at UGX 5.5 trillion. Whilst many of these cases may be successfully contested by Government there could be a very large impact on budget funds if a significant proportion of this contingent liability is ultimately realized. It is difficult to ascertain whether the decision to decentralize the responsibility for management of court awards to Accounting Officers in MDAs will lead to better defense of government interests and minimize the risk of these contingent being realized.

65. Compensation claims arise out of infrastructure projects. Most of these pertain to the Uganda Land Commission (ULC) and the MoD. Smaller amounts were incurred by the Rural

Electrification Agency and the Ministry of Lands. Activities like roads and electrification projects, give rise to compensation claims but in many instances these are not factored in while planning projects and budgets. These costs should be factored in as part of the overall project cost estimates. Comprehensive and realistic costing of project (and other activities) is vital in ensuring planned activities are affordable and avoid cost overruns and payment arrears. Recognizing this, the budget for compensation has been increased from UGX 44 billion in 2015/16 to UGX 99 billion in 2016/17 but the budgets for the agencies in arrears were virtually zero.

66. Arrears on other recurrent transactions (ORT) have almost doubled over the past two years. The MDAs, during discussions, highlighted the difficulties in containing expenditures for these items within the budget constraints. Officials in many votes feel that this cannot be achieved without substantially reducing their planned activities to a level which severely impacts their ability to provide services at the appropriate level. The situation on these arrears could be exacerbated in the future, as there are plans to cut consumptive expenses across the board by approximately 50percent in the 2017/18 budget. MoFPED should provide advance guidance to MDAs on the need to scale back work plans within the budget constraints.

67. The absence of a comprehensive database for projects and contracts impacts on the planning, budgeting and implementation of development expenditures. Projects are often under-costed, at the stage of feasibility study, with insufficient provision for all associated project costs, including for acquisition of land, compensation charges, counterpart costs and tax payments. According to figures provided by UNRA the MTEF ceiling of UGX 2.58 trillion is UGX 787 billion short of the actual requirement totaling UGX 3.37 trillion for 2017/18. It is not clear how much of this requirement is already committed in terms of ongoing multi-year contracts that may lead to a further increase in the arrear stock at UNRA. A significant scaling back may thus be necessary unless other sources of funds can be identified. One of the strategies suggested for dealing with over-commitment against investment projects is to delay commencement of any new projects and contracts. These decisions need to be based on comprehensive information on the full multi-year commitment position for all projects and contracts. This requires appropriate system support and in this context GoU is planning to implement a projects database system as part of its overall public investment framework. IFMS has a contracts ledger in the purchase management module but from discussions with the IFMS manager, this is not used comprehensively and does not appear to be integrated with the procure to pay functionality (for example, the contract payments schedules do not automatically create a draft commitment. These databases are an area requiring further review. The ultimate objective would be the formulation of realistic and affordable development budgets over the short and medium term.

68. Improving project appraisal and selection for the development budget needs to be undertaken as part of strengthening the broader public investment management.

Weaknesses in the public investment processes have resulted in investment delays and under-execution of investment projects. This impacts on the realization of anticipated returns. GoU is

committed to developing a public investment framework and have sought assistance from FAD and East AFRITAC in addressing reform priorities for public investment management.

B. Budget Release

69. The Annual Budget Performance Report (ABPR) 2015/16 highlights an aggregate overall release of GoU funds of 103.8 percent with a 98.6 percent absorption level. This has been possible for FY 2015/16 on account of the collection of revenues in line with the budget. The majority of the larger votes received close to full allocation of the budget or even greater than 100% of their original budget appropriation. However, some votes received significantly less, for example Ministry of Agriculture (89.5 percent) and Ministry of Gender (78.8 percent). While at the aggregate the releases seem adequate there could be shortfalls across different categories of expenditure. Table 8 compares the budget releases across categories of expenditure for selected votes. The release for priority category like personnel emoluments are protected and the shortfalls on other recurrent items also does not seem to be significant. In most cases there are shortfalls in respect of GoU funded development expenditures. To ensure appropriate releases, the MDAs need to exercise effective cash forecasting to support and justify their quarterly funding requirements.

Table 8. Uganda: Budget Releases (%) Against Approved Budget (2015/16)

Vote	Wage	%	Non-Wage	%	GoU Dev	%	Donor Dev	%	Other	%	Total	%
Defense	410.4	106%	709.8	151%	139.0	100%	-	0%	5.1	93%	1,264.3	81%
Finance	4.2	95%	116.8	106%	322.8	88%	93.1	98%	-	0%	536.9	92%
Agriculture	5.6	100%	38.9	92%	35.6	85%	13.5	36%	3.5	97%	97.1	74%
Education	12.4	111%	144.9	110%	56.5	91%	143.8	72%	16.5	83%	374.1	88%
Health	7.0	100%	67.1	104%	26.5	110%	507.4	114%	7.1	97%	615.1	112%
Energy	4.8	117%	5.3	100%	360.4	117%	-	0%	0.2	100%	370.7	13%
UNRA	30.0	163%	23.9	131%	1,197.2	92%	538.3	116%	7.8	79%	1,797.2	99%
Makerere Univ.	72.5	100%	21.5	100%	20.1	100%	-	0%	94.1	83%	208.2	92%
Lands Comm.	0.4	133%	0.7	117%	17.6	120%	-	0%	0.1	50%	18.8	119%

Source: ABPR 2015/16.

70. Quarterly budget releases are based on the appropriated budget and the annual work plans, which set out the planned activities and funding requirements. The budget release represents the funding budget in IFMS against which commitment control is exercised. Funds for the majority of development funds are released by the third quarter of the year so that there is enough time to procure and implement within the FY. This is important in ensuring the high levels of absorption achieved. Especially for development expenditures, proper profiling of

funding needs based on the planned activities in the work plans (as opposed to a simple pro-rata over the quarters) is vital for smooth implementation. Ideally, it would be preferable for ongoing contracts to release the full amount of the contract for the whole year, as this would enable the full contract (or at least the annual portion of a multi-year contract) to be committed for the whole year up front; this would then recognize the commitment in full at the time of signing the contract, when the commitment is really incurred. However, projects are often implemented more slowly than originally planned, hence there is a requirement for a quarterly review for releases. Ongoing contracts should then be the first items committed against the release (funding budget) in IFMS at the very start of each quarter.

71. The effectiveness of the budget release process is dependent on good cash management practices. Effective cash management should ensure that sufficient cash is available throughout the year to support smooth execution of approved budget plans. This involves moving away from the current regime of cash rationing in which government services are deliverable only when cash resources are available, and/or the accumulation of expenditure arrears. Previous TA reports from FAD and AFE have described the operation of cash management and made recommendations regarding the institutional arrangements necessary for performing the cash management function and are not repeated here.¹⁷ MoFPED has taken steps to strengthen cash management practices in government. These include establishment of a new Directorate of Debt and Cash Policy; reviewing the role and function of the Cash Management Committee; and finalization of guidelines for cash management in government. MoFPED should continue with improving the capacity of MDAs to provide accurate cash flow projections in conformity with their approved budget.

C. Commitment and Expenditure Control

72. A major shortcoming in stemming further accumulation of arrears is that the commitment control system (CCS) does not cover all expenditure categories. IFMS has been configured to control commitments against procurement of goods and services using the standard purchase order functionality in the purchase management module. Currently, there is no process for pre-committing other expenditure categories such as salaries, pensions, utilities, contributions to international organizations and other (non-purchase type) recurrent expenditures. Contract payments are only usually committed, once the payment certificate (effectively the invoice) has been received. Commitments are not made in respect of counterpart contributions and obligations, including tax contributions. An effective CCS requires comprehensive coverage of all expenditure categories so that an aggregate position of the overall commitment position is available. This information is particularly important for cash forecasting and management. Ability to commit non-purchase type expenditures, e.g. as an expense order, is a standard feature of most IFMS solutions and should be implemented

¹⁷ FAD mission in 2014 and East AFRITAC missions between 2015–16.

Controlling commitments for the different expenditure categories

73. The salary arrears problem is exacerbated where MDAs recruit new staff without adequate budget provision. A Presidential directive has been issued, stipulating that no new staff may be recruited without the necessary funding in the approved budget. If this is strictly enforced, it will help in controlling the wage bill and preventing new salary arrears. It is important that wage related payments are committed in IFMS each month using the IPPS payroll date. Speedier processing of payroll amendments in IPPS, including adding new recruits to payrolls will also help reduce the incidence of arrears.

74. Committing utilities on a monthly basis would flag issues at an early stage so corrective action can be undertaken before the problem gets too big. Commitments can be estimated based on past consumption and bills. Where funds are seen to be inadequate it should then be possible to take remedial action. Discussions with line ministries also suggest that a public awareness campaign of thrift could be considered, using posters to cut unnecessary waste, e.g. turning lights off, air-conditioners, etc. when not strictly needed.

75. Rent arrears have reduced slightly over the past two years and the stock now stands at an average equivalent of three months' rent. There has been a general improvement across all votes except judiciary, defense, and police that account for bulk of rent arrears. The lease agreements contain the commitments and rent schedules can be produced for each vote. These amounts could then be committed in IFMS on a monthly basis to get an idea of the requirement of funds. In addition, there is scope for reviewing and rationalizing rental rates with a view to reducing costs and gaining better value for money. MoFPED could also consider developing standards rental rates applicable across government. Along with other general measures proposed, it should be possible to monitor and bring rent liabilities up to date.

76. The amounts and due dates for contributions to international organizations are known, so their commitment by the agencies in IFMS should straightforward. MDAs are aware of their organizational membership and a schedule of payments to the organizations would show the due dates in the work plans and requests for quarterly budget release and facilitate recording of these commitments. In addition, MDAs should continually assess membership needs and either unsubscribe to less important ones or seek a reallocation in the budget.

77. Controls on other recurrent expenditures are weak and have resulted in an increase in arrears during 2016/17 of UGX 127 billion. Large items of arrears under this category include medical stores, maintenance costs and other consumptive costs. These items of expenditure are not being committed properly on a systematic basis in IFMS. If commitments were being made in IFMS and orders restricted to the available release, these arrears would not be escalating.

78. Generally, commitments are often made outside of IFMS, via manual purchase orders, which is bypassing the system based commitment controls. This is often undertaken as a short cut measure with the intention to “regularize” the manual order by committing in the system at a later date, i.e. once funds become available. However, the commitment is often not posted at all as other commitments consume the available budget releases. It must be stressed with the AOs that this practice should cease and only orders issued through IFMS are acceptable for payment. Previously a public awareness campaign was undertaken notifying suppliers that only system generated purchase orders would be accepted for payment. A follow up campaign would be useful for making suppliers fully aware of the implications of them not being paid against a manual order; this would reduce complicity on their part. Metrics reports can be produced from IFMS showing the dates entered against the transaction dates and can be used for monitoring purposes. This would identify MDAs where controls are bypassed, e.g., where the purchase order, goods received and invoice are all posted at the same time.

79. All contracts are not committed into IFMS prior to the realization of the obligation. The real obligation is incurred when the contract is signed but usually the commitment is only recorded (if at all) once the invoice or stage certificate is received. Ideally, contracts should be committed in full upon signing but this is not being monitored and enforced currently. The payments due are known from the contract payments schedules, so it should be possible to commit the contract payments at the start of each quarter.

80. MoFPED does not currently have a comprehensive contracts database to assist the management of contracts and multi-year commitments. IFMS has functionality for maintaining a ledger of contracts under the purchase management (PM) module but this is not being fully utilized. The system does not enforce entry of the contract details, e.g., as part of the purchase order/commitment process. A complete list of contracts, including their payments schedules would facilitate the commitment of contractual obligations at the start of each quarter. There are also proposals for establishing a projects database as discussed earlier but no date has been set for this. The interlinkages between contracts and projects should be considered when developing the database.

81. Project expenditures are only partially committed into IFMS on an ex-ante basis, and many of the project associated costs are not committed at all. Associated costs may include compensation, counterpart funds, acquisition of land and taxes; these costs are rarely committed when the obligation is incurred. The IFMS purchase management module has requisitioning functionality, whereby the requisition reserves funds prior to issuing the purchase order and incurring the formal commitment. This could be used to ensure all project cost elements are properly committed, and become first call on released funds at the start of each quarter.

82. Donor funded projects are not currently transacted through IFMS and therefore do not go through system based commitment controls. This situation impacts on the IFMS as a comprehensive central repository of financial information for reporting. It also means that

commitment controls cannot be enforced, which may lead to continued accumulation of arrears. MoFPED has been keen to get the donor funded projects on the IFMS but the progress on this front is dependent on donor's own assessment of fiduciary risks and their confidence on in-country systems. However, MoFPED should continue to engage donors in this matter.

83. Discipline in spending public resources is more a management issue. In terms of functionality, as discussed earlier, the IFMS provides for controls at different stages of the spending process. However, these are not exercised fully and often bypassed as in the use of manual local purchase orders, not recording all commitment in IFMS, non-reporting of unpaid bills and arrears. There is also absence of oversight and enforcement of the controls by MoFPED that would instill improved fiscal discipline within the MDAs.

84. The PFMA 2015 codifies and reinforces the importance of fiscal discipline. It clearly sets out the responsibilities for effective management and control throughout the PFM cycle. MoFPED has also been entering into performance contracts with the Accounting Officers as part of their appointment process. Specific sections 79 and 80 on sanctions are repeatedly referred to in the instructions issued by MoFPED. However, despite several instances of committing in excess of the available budget and incurring new payment arrears, no recourse has been made to sanctions. Without appropriate enforcement of the sanctions in cases of financial discipline, continued incurrence of arrears is likely.

Recommendations

- Provide guidance to MDAs on incorporating provisions for arrears clearance in their budget submissions and annual work plans (May 2017).
- Implement the contracts database or contracts management module in IFMS (July 2017).
- Enhance recording of all commitments into IFMS to enable commitments to be made for all expenditure categories and focus on expenditure controls at the stage of commitment and not payments (July 2017).
- Undertake a new public awareness campaign notifying suppliers that only authorized orders processed through IFMS will be accepted for payment (June 2017).
- Explore and establish options for implementing cost saving measures e.g. reduction of electricity consumption, rationalization membership with international organizations, reviewing rental agreements (August 2017).
- Develop and implemented the projects and contracts database including functionality for full costing of projects and disaggregated future commitment (December 2017).
- Continue to engage development partners for bringing donor funded projects into IFMS (Ongoing).

Appendix I. Uganda: Action Plan for Clearance and Prevention of Arrears

February–June 2017	July–December 2017
Reporting of expenditure arrears	
<p>1. Issue updated and consolidated guidelines on recognition, settlement and reporting of payment arrears including a clear and consistent definition of arrears; and clarify the institutional responsibility of AGO in reporting and monitoring of arrears and commitments (April 2017).</p> <p>2. Identify and reconcile the differences between the stock of verified arrears and those reported in the consolidated financial statements for FY 2015/16 (April 2017).</p> <p>3. Include an ageing category for all reported and verified arrears in the consolidated reports and the annual financial statements (April 2017).</p> <p>4. Complete the stock-taking and verification exercise for budgetary central government – sub-vented agencies and all categories of expenditure and semi-annually publish reports on domestic arrears on the MoFPED website (June 2017).</p>	<p>5. Operationalize semi-annual reporting of arrears and commitment and move to quarterly reporting for entities that are more prone to accumulating arrears (July 2017).</p> <p>6. Establish mechanisms for regular reporting, monitoring and verification of arrears incurred by local government (September 2017).</p> <p>7. Clarify the responsibility and establish processes for regular monitoring and oversight of public corporations (December 2017).</p>
Developing an arrears clearance strategy	
<p>1. Establish a temporary unit in AGO responsible for management of the clearance of the identified stock and a high-level committee for oversight purposes (April 2017).</p> <p>2. Develop and disseminate a comprehensive arrears clearance strategy including prioritization criteria and liquidation policy (June 2017).</p> <p>3. Include a schedule of payments in the medium-term budget strategy 2018-2021 (June 2017).</p>	<p>4. Complete a comprehensive stock take and verification exercise to include all arrears across government, focusing initially on BCG and extending it to local government and the wider public sector (March-September 2017).</p> <p>5. Maintain records of rejected and contestable claims with the latter being reviewed quarterly by independent arbitration (March-September 2017).</p> <p>6. Undertake an additional validation exercise on some of the identified claims and develop a comprehensive database of independently validated arrears (October 2017).</p>
Preventing accumulation of arrears	
<p>1. Provide guidance to MDAs on incorporating provisions for arrears clearance in their budget submissions and annual work plans (May 2017).</p> <p>2. Undertake a new public awareness campaign notifying suppliers that only authorized orders processed through IFMS will be accepted for payment (June 2017).</p> <p>3. Continue to engage development partners for bringing donor funded projects into IFMS (Ongoing).</p>	<p>4. Implement the contracts database or contracts management module in IFMS (July 2017).</p> <p>5. Enhance recording of all commitments into IFMS to enable commitments to be made for all expenditure categories and focus on expenditure controls at the stage of commitment and not payments (July 2017).</p> <p>6. Explore and establish options for implementing cost saving measures e.g. reduction of electricity consumption, rationalization membership with international organizations, reviewing rental agreements (August 2017).</p> <p>7. Develop and implemented the projects and contracts database including functionality for full costing of projects and disaggregated future commitment (December 2017).</p>

Appendix II. Uganda: Definitions for Major Category of Expenditure Arrears

Expenditure category	Description	Proposed Definition
Employee expenses	<p>Salaries and wages:</p> <ul style="list-style-type: none"> • Existing employments – once records are created on the payroll staff should be paid on a regular basis, usually at the end of each month. • New starters, promotions – processes for creating a new payroll record are estimated to take up to two months. <p>Staff claims; travel, transfer and other non-salary allowances—can reasonably take 30 days to verify entitlement and process payment.</p>	<p>Payments to employees should be classified as in arrears where:</p> <ul style="list-style-type: none"> • Payments to existing employees are not remitted within the month for which those salaries are due. • Payments to new starters are not paid within 60 days of the employee commencing duties. <p>Staff claims etc. are not settled within 30 days of claim being lodged.</p>
Utilities	<p>Category includes: electricity; water; sewerage; telephone/fax; and internet facilities. Increasingly, pre-payment options are used. Otherwise, invoice verification of units consumed and payment processes should be completed within 30 days of invoice being lodged.</p>	<p>Payment should be considered to be in arrears if invoice has not been settled within 30 days of it being received.</p>
Rents	<p>Rentals are generally payable in advance and may be due as monthly, quarterly or longer installments. The payment terms will be agreed in the respective contract or lease agreements.</p>	<p>Rental payments should be considered to be in arrears where they have not been paid by the due dates, as specified in the contract/lease.</p>
Court judgments and other claims	<p>Comprises compensation claims awarded against the government. The court ruling will generally prescribe the date(s) by which payment must be made. The category includes other claims such as agreed contributions to settle government’s liability for public servant accrued pension benefits.</p>	<p>Payments are considered in arrears where they have not been settled by the due date.</p>
Public debt	<p>Consists of domestic and external borrowings and the interests, discounts and commissions due in respect of those borrowings. Loan agreements determine the payment schedule – due dates, currencies and amounts.</p>	<p>Payments are considered in arrears where they have not been settled by the due date. The schedule of payment arrears should distinguish between domestic and external arrears and between principal and interest.</p>
Membership and other subscriptions to international organizations.	<p>Membership of regional and international institutions may oblige the government to make periodic contributions towards operational costs. Terms of membership and payments will be set out in protocol agreements. Amounts due determined by the governing bodies and the contributions requested by letter or invoice.</p>	<p>Payments are considered in arrears where they have not been settled by the due date.</p>
Recurrent goods and services	<p>Includes payments for materials, supplies, repairs and other services. These should normally be ordered from suppliers through a local purchase order or contract. Unless otherwise specified, processes of verification, certification and payment should be completed following the goods being delivered or services rendered and within 30 days of a valid invoice being received.</p>	<p>Payments are considered in arrears where they have not been settled by the due date specified in the supply contract, or (in the absence of a specific term) within 30 days of receiving the invoice.</p>

Expenditure category	Description	Proposed Definition
Construction works	Payment schedules to contracts will specify amounts for mobilization, interim certificate and retention payments as well milestones and payment terms. Payment against certificates will require sufficient time for measurement, verification and payment authorization processes. This can require authorization by several agencies. In the absence of specific contract terms payments should be settled within 60 days of receiving the certificate.	Payments are considered in arrears where they have not been settled by the due date specified in the construction contract or (in the absence of a specific term) within 60 days of receiving the certificate or invoice.
Tax Refunds	VAT Act 1996 specifies that refunds will be honored within one month of claim submission.	Amounts unpaid for longer than one month since claim for refund was lodged with URA.

Appendix III. Uganda: Note on Arrears on Court Awards

The data on arrears arising out of court awards was shared by the Internal Audit Department. There are 477 court awards amounting to UGX 681.7 billion that have been in arrears. This includes both the principle amount and the accruing interest in terms of the award. Table A.1 below the thirty-three largest award claims.

Table A.1. Largest Outstanding (above UGX 3.3 billion) Balances on Court Awards

	Date	Judgement Amount	other currencies	costs fees	interest rate	cumulative interest	Total Amount to be Paid	Paid	Balance
108	04/12/2014	44,751,281,842	\$16,387,061.50		12% & 6%	55,882,872,105	100,634,153,947		100,634,153,947
426	29/01/2016	8,760,756,112				46,453,167,813	55,213,923,925		55,213,923,925
134	26/07/2010	19,603,119,194		2,281,666,780	25% & 6%	28,590,210,469	50,474,996,443		50,474,996,443
443	17/02/2015	52,511,468,100					52,511,468,100	4,389,207,997	48,122,260,103
400	02/01/2013	27,728,118,522	\$8131890+\$1301103 (interest)		6%	4,436,591,009	32,164,709,531		32,164,709,531
56	29/07/2015	27,010,013,506			10% & 6%	2,194,817,680	29,204,831,186		29,204,831,186
123	21/03/2013	39,189,449,715					39,189,449,715	10,000,000,000	29,189,449,715
116	17/02/2014	14,185,547,842			6%	9,220,606,103	23,406,153,945		23,406,153,945
49	12/02/2014	22,380,000,000					22,380,000,000		22,380,000,000
436	30/04/1993	13,164,000,000				17,497,904,400	30,661,904,400	10,158,500,000	20,503,404,400
34	05/02/2013	20,383,668,996				-	20,383,668,996		20,383,668,996
73	28/09/2012	39,150,673,250					39,150,673,250	18,793,076,610	20,357,596,640
12	04/05/2013	20,896,550,000				-	20,896,550,000	3,746,652,830	17,149,897,170
84	20/06/2014	15,737,371,176					15,737,371,176		15,737,371,176
131	08/06/2010	11,666,382,000			10%		11,666,382,000		11,666,382,000
442	02/06/2015	11,507,273,750					11,507,273,750	89,207,997	11,418,065,753
228	19/06/2015	9,222,000,000			25%	1,729,162,500	10,951,162,500		10,951,162,500
154	04/04/2016	10,802,002,343					10,802,002,343		10,802,002,343
93	11/12/2014	14,459,515,350					14,459,515,350	4,300,000,000	10,159,515,350
67	06/11/2000	15,856,000,000					15,856,000,000	6,503,259,537	9,352,740,463
237	07/06/2016	6,860,000,000			6%	1,318,200,000	8,178,200,000		8,178,200,000
425	17/08/2015	7,996,375,500					7,996,375,500		7,996,375,500
13	15/04/2013	4,137,483,534			25%	3,318,606,584	7,456,090,118		7,456,090,118
343	20/2/2015	7,566,350,000		530,000,000			8,096,350,000	676,739,110	7,419,610,890
279	12/05/2004	9,279,240,000					9,279,240,000	2,000,000,000	7,279,240,000
115	21/12/2012	4,294,017,315		50,773,591	10 & 6%	1,964,689,553	6,309,480,459		6,309,480,459
26	20/02/2014	6,162,118,874				-	6,162,118,874		6,162,118,874
107	10/06/2014	4,609,121,000		60,682,300	6%	1,451,873,115	6,121,676,415		6,121,676,415
238	05/09/2008	4,380,135,000			21%	1,243,903,943	5,624,038,943		5,624,038,943
120	22/09/2015	11,684,000,000					11,684,000,000	6,789,645,031	4,894,354,969
15	13/06/2016	3,340,740,000		510,654,920	8%	801,777,600	4,653,172,520		4,653,172,520
396		3,205,000,000			20%	1,282,000,000	4,487,000,000		4,487,000,000
126	21/07/2010	6,754,800,000					6,754,800,000	3,317,750,000	3,437,050,000
Total top 33 Awards		519,234,572,921		3,433,777,591		177,386,382,874	700,054,733,386	70,764,039,112	629,290,694,274
							Overall Total Arrears		681,651,864,063
							Largest Items as Percentage of Total Arrea		92.3%

From the table above the following issues are highlighted:

1. The largest 33 awards account for 92.3 percent of the total arrears on court awards.
2. These awards have interest rates varying between 6 percent and 30 percent. The interest rates however, are not shown in all the cases.
3. The criteria used for partially paying some of the arrears is not clear from the information provided.
4. Anomalies are highlighted above, specifically where the cumulative interest exceeds the original judgement amount.
 - a. Regarding the largest two items (108 and 426), the cumulative interest might need further investigation, as the figures suggest discrepancies.
 - b. Regarding the third largest item (134), the cumulative interest could be explained by the high level of interest (25 percent and 6 percent) incurred over a period of six years.
5. The total in the table above differs slightly from the total in the reported arrears, as the listings provided in the reported arrears contained some errors.
6. The ageing analysis of these claims is shown in the table below.

Table A.2. Ageing Analysis of Court Award Arrears

Vintage	Number of Awards	Value (UGX Bn)	% of Total Value
0 to 90 Days	8	23.9	3.5%
90 to 180 Days	9	59.7	8.8%
180 to 365 Days	11	43.9	6.4%
1 to 2 Years	83	193.8	28.4%
2 to 3 Years	72	78.1	11.5%
3 to 4 Years	61	143.5	21.1%
4 to 5 Years	28	6.6	1.0%
Above 5 Years	205	132.2	19.4%
Total	477	681.7	100.0%

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