REPUBLIC OF UGANDA

FIDUCIARY SYSTEMS ASSESSMENT

UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM

8th November 2012

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FIDUCIARY ASSESSMENT

I. Executive Summary

1. USMID fiduciary arrangements will be implemented at the Municipal level by the 14 Municipal LGs and at Central Government level by MoLHUD. They will be supported by the Ministry of Finance, the Auditor General and the Public Procurement and Disposal of Public Assets Authority (PPDA). The program will use country financial management systems. The Fiduciary Systems Assessment concluded that the Program's institutional framework, procedures, fiduciary capacity and overall performance, is appropriate for PforR financing, and has identified the risk mitigating measures and capacity which will need to be strengthened, to provide reasonable assurance that financing proceeds will be used for intended purposes, with efficiency, economy, transparency and accountability, thereby allowing the Program to achieve the expected results.

2. Overall, PFM Progress in Uganda over the last decade in Uganda has been mixed. It has had one of the most successful implementations of the Integrated Financial Management Systems (IFMIS) in Africa at the Central Government level, it has also completed one of the most successful pilots of an easy to use IFMIS system for Local Government in 2012. The quality of Annual Accounts has improved. A locally developed budget preparation and reporting tool – Output Budgeting Tool (OBT) – has been rolled out to all spending units, the National Audit Office has been provided with legislative and financial autonomy and is currently one of the strongest in Africa, internal audit and procurement is improving and the Oversight Committees of Parliament are active and effective.

3. At the Central Government level, the main challenges have been: (i) the sharp deterioration in budget execution with frequent resort to Supplementary Budgets, in some cases with retrospective effect for the previous year. In FY 11 the budget was subjected to three supplementary requests which amounted to 27.7%. (ii) there has been a reduction in policy based budgeting with increasing disconnects between the National Development Plan and the MTEF (iii) lack of compliance with administrative rules remains one of the biggest challenges in Uganda with the Procurement and Public Finance Acts being the most highly breached legislations in the country (iv) fund flows remain a challenge with increasingly irregular flows of both recurrent and development funds from the Treasury to spending units.

4. At the Local Government level, Uganda has a well specified Fiscal Decentralization Strategy. However implementation of that strategy since 2002 has become increasingly challenging. This is due to (i) reducing budgetary allocation for local governments with their share reducing from 24% to 17% of the budget (ii) increasing share of conditional grants (iii) the allocation for discretionary grants (especially the Local Development grant) being static in nominal terms for the last six year resulting in reduced per capita allocations (iv) sharp reduction in Own Source Revenues over the last seven years (v) increase in overhead costs due to increase in the number of districts from 44 to 111 over the last ten years (v) multiple reporting and accounting systems that function in silos and do not exchange data (vi) budgetary allocations for salary that cover only around 60% of staff costs resulting in large vacancies in local governments (vii) weakening National Assessments for LDG due to resource constraints, disbanding of the quality assurance team, providing grace periods to local governments to allow them to reach minimum standards and questions regarding the utility and impact of this assessment.

5. With respect to local governments, annual reports of the Auditor General indicate ongoing financial irregularities. In the In FY 2009/2010, the audit report states that there was failure to account for funds of UGX 11.6 bn (equivalent to around US$ 4.6m), UGX 34.2 bn (US$ 13.6m) expenditure was

not compliant with procurement laws, UGX 988m (US$395,000) of funding was diverted and wasteful expenditure amounted to UGX 227m (US$90,800).[1]

6. For the fourteen municipal LGs that are the beneficiaries of this program, the assessment found (i) a challenging budget formulation process with communities not able to get their voice heard in the process (ii) weak and ineffective internal audit that is not undertaking risk based auditing and that does not implement up to 50% of its annual work plan (iii) increased fiduciary risk with USMID providing nine time more funding for development assistance than the current level (iv) large staffing gaps, with some local governments having only 35% of their positions filled, and overall gaps of 50% in key technical areas of engineering and finance (v) mixed progress in audit results with five of the fourteen local government receiving an "Unqualified" opinion, seven receiving a "Qualified" opinion and two receiving a "Disclaimer" opinion in FY 11.

7. Fraud and Corruption (F&C) remains a major risk for the Program despite the stated zero tolerance to corruption policy of the Government and the high number of legal and institutional frameworks in place for improving overall governance. . The main risks are (i) Collusion between bidders and LGs staff especially given the compliance problems highlighted; (ii) bribery in procurement with PPDA surveys showing that 69.8% of surveyed service providers acknowledging that corruption influences procurement; and (iii) embezzlement of funds. A recent survey on corruption perception has found that Local Governments were viewed by majority of respondents (69.6%) as having most prevalent cases of corruption in public procurement as compared to 30.4% who mentioned Central Government. (2nd Public Procurement Integrity Survey (2010) published by the Public Procurement and Disposal of Public Assets Authority). The majority of respondents (81%) indicated that they offered gratifications to public officials in Local Government compared to 19% to officials in Central Government revealing an apparently higher level of corruption in Local Government.

8. On procurement the assessment found that the procurement framework is based on clear, mandatory and enforceable rules that are freely accessible to the public is sound and appropriate for the achievement of competition, cost effectiveness, timelines in the delivery of services. However, the participating agencies performance in complying with the system both qualitatively and quantitatively limits the overall effectives in achieving these objectives. While most of the procurement in these 14 municipal LGs is through competitive bidding, compliance in procurement is a challenge with (i) inadequate specification of qualification requirements in bidding documents; (ii) inappropriate advertising of opportunities; (iii) departure from pre-disclosed evaluation criteria during bid evaluation; and (iv) incomplete procurement records. These contribute low bidder participation with 1 to 3 bids received for competitive procurement, which limits the competitiveness of procurement and the achievement of cost effectiveness in the delivery of services. Timely service delivery is impeded by late delivery of goods and services due to (i) budget credibility and planning weaknesses which result in delayed procurement commencement and (ii) weaknesses in contract administration which result in delays in contract performance or even underperformance. The procurement complaints system is well established, but is unsurprisingly underutilized by bidders given the low bidder participation.

9. The overall fiduciary risk is assessed as High. The main risks to the achievement of results under the program, the mitigating actions and instruments are outlined below in Section IV. The primary sources of fiduciary risk stem from (i) delayed financial accounting and reporting, errors/falsification of supporting accounting documentation, (ii) delays in cash releases to LGs; (iii) management overrides of internal controls; (iv) inadequately resourced internal audit functions; (v) absence of focus on value for money in external audits and ineffective follow up of audit findings.

10. Risk Mitigation measures will be anchored in the combination of the annual assessment of progress under the program action plan, targeted implementation support and capacity building and the

[1] Total annual local government expenditure is roughly estimated at about USD$650m for FY 13/14.

DLIs, which are an integral part of the program and present a good opportunity to address fiduciary risk. Key fiduciary risk mitigation measures have been included either as a minimum condition or as performance indicators in the annual assessment. At Program level, this has been buttressed by the requirement of the municipal LGs to fully meet a set of minimum conditions in order to receive Program funds. This requirement is complemented by capacity building for the 14 municipal LGs and MoLHUD to help strengthen their systems. A key risk mitigation measure is roll out of the Integrated Financial Management Information System (IFMIS) to twelve of the fourteen local governments that do not have this system right now. This will be the Tier 2 system that has been successfully piloted in local governments by the Government of Uganda. The roll out is expected to be complete by disbursement year 2. F&C risks will be addressed through a combination of preventive, deterrent, and detection measures. Emphasis is being placed on providing regular Program performance information to the beneficiaries to ensure that they can hold their leaders accountable. The annual assessment will also assess follow up and resolution of identified F&C cases.

11. USMID Program Audit: The program audit will entail the audit of the individual Municipalities as entities with distinct audit reports and then consolidated with MOLHUD to capture the whole program. This type of audit will help in assessing individual Municipal Council performance. Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program and will be relied on for the program. The program will be audited under the OAG existing framework. The Auditor General will conduct annual statutory audits of participating municipal LGs and the MoLHUD. Starting in July 2014, the scope of the annual statutory audits with expanded to include Value for Money (VFM) aspects. The VFM audits will be conducted by the Auditor General in the 14 municipal LGs in light of the increase in expenditure on the infrastructure under the program as per agreed ToRs and will provide the basis for a significant proportion of the performance score awarded to the Municipalities in the infrastructure delivery part of the annual assessment (DLI 3).

II. Background and the Program's Institutional Arrangements

A. Program Description

1. The Government of Uganda has requested IDA funding for the proposed Uganda Support to Municipal Infrastructure Development Program (USMID). This Program is to be implemented at Local Government level by 14 Municipal LGs[2] across the country, and at Central Government level, the Ministry of Lands, Housing and Urban Development (MLHUD).

2. The proposed USMID Program responds to the municipal LGs challenges in the context of GoU's broader LG Development program (LGDP) – which is a performance bases grant - currently covering all the 111 Districts LGs and 22 municipal LGs Local Governments (LGS), by addressing the need for the institutional and financial strengthening of municipal LGs and financing specific infrastructure needs through extending and deepening the government LGDP.

3. The USMID Program whose coverage will be limited to 14 municipal LGs of Uganda will provide funding for two new performance based grants within the overall LGDP Government program i.e.(i) municipal local development grant (LDG) element – which will be performance based and (ii) an urban capacity building grant (CBG) for institutional support The Program will also involve a range of administration, oversight and support activities to be undertaken by the central Ministry responsible for the coordination of the implementation of the Program (MoLHUD). The first phase of the USMID will run over five years (2013/14-2017/18) at a total cost of US$ 160 million. As with the other elements of the LGMSDP, the USMID will constitute an integral part of the intergovernmental fiscal architecture of Uganda and is expected to continue indefinitely after the first phase.

4. The Program development objective (PDO) is to enhance the institutional capacity of the fourteen selected municipal LGs to improve urban service delivery. In order to ensure that sufficient funding is available – and that incentives are sufficiently sharp – to meet this objective, the grant amounts which will be provided to these Municipalities through the MDG will increase steeply from the existing (approximate) US$ 1.57/capita/annum LDG average level to US$ 16.51 per/capita/annum in the first year of the Program and to around $ US$ 28.39/capita/annum by Program year four (FY2015/16). Depending on the size of the Municipality, the MDG and MCBG combined is expected to provide somewhere between US$ 518,296 and US$ 6,588,537 per Municipality per annum, which – in contrast to the past - will be sufficient to allow for the development of relatively significant urban infrastructure projects. While Municipalities will have significant discretion in selecting priority projects, from a menu of typical investments which are currently not supported through any earmarked transfers and which are key to developing and managing the built environment, mainly (i) roads and associated infrastructure; (ii) liquid and solid waste management; (iii) water and sewerage; (iv) local economic infrastructure (e.g. markets); and (v) urban transport (e.g. bus terminals).

5. Given that the main goal of the Program is to achieve improved institutional and delivery of performance results on the part of the targeted municipalities, MDG funds will be allocated annually to Municipalities on the basis of a transparent, equitable formula3 combined with a performance score as determined through an annual assessment. The MDG assessment criteria have been enhanced and rationalized from those currently applied through the LDG so as to focus on areas of critical relevance to improved Municipal performance and "raise the bar" in these areas viz.:

a. Improved linkage between Municipal Physical Development Plan, Five year Development Plan and Budgeting;
b. Increased municipal own source revenue (OSR) performance;

[2] Arua, Gulu, Lira, Moroto, Tororo, Soroti, Mbale, Jinja, Entebbe, Masaka, Mbarara, Kabale, Fort Portal and Hoima,
[3] This will be the formula in use for the LDG i.e. government program formula (i) administrative land area (15% weight); (ii) population (45% weight); and (iii) poverty head count (40% weight).

c. Improved procurement performance;
d. Improved financial management performance;
e. Improved budget execution performance;
f. Improved accountability and transparency;
g. Improved environmental and social management;
h. Improved delivery of urban infrastructure, quantitative and qualitative.

6. Improvements in these areas constitute the core results of the Program, hence four DLIs (1-4) which together account for around 85% of Program financing, are focused directly on leveraging them. In other words, funds are disbursed in direct proportion to results achieved in these areas.

7. ***In order to maximize the objectivity and robustness of the annual assessment it will be conducted by an external private firm contracted in to perform the task***. The assessment will cover four areas:

i. a Minimum Conditions assessment (which will focus on performance related to DLI 1), which will determine whether the Municipality has met a number of key basic conditions to ensure that it is capable of handling at least a fraction of the MDG amount and to provide basic comfort in respect of fiduciary and other (e.g. social and environmental management) risks. In order to receive any MDG funding, a Municipality will need to comply with all the minimum conditions, and such compliance (alone) will allow it to receive around 18% of the total Program amount;
ii. an Institutional Performance assessment (focused on DL1 2 performance) which will cover areas a.-g. above. Assuming that the Municipality has met all the minimum conditions it will receive an additional allocation of up to 36.25% of the Program amount in direct proportion to its performance score;
iii. an Infrastructure Delivery assessment (focused on DLI 3 performance) which will measure the performance of the Municipality in the actual delivery of urban infrastructure in both quantitative and qualitative terms (i.e. area h. above). This will account for up to 23.75% of the Program amount. As with the institutional performance assessment, individual Municipal allocations will be determined in direct relation to the score they achieve in this area;
iv. a Capacity Building plan assessment (focused on DLI 4 performance) which will focus on whether the Municipality has a Capacity Building plan in place and if previous expenditures have been within allowed parameters. If so, the Municipality will receive its annual capacity building grant, amounting to roughly 6.25% of the Program amount.

8. In addition to the MDG and CBG flows themselves, the Program will involve a number of activities which will be centrally executed by MoLHUD to ensure that the grant is effectively administered, monitored and reported on, and to support and guide the capacity-building activities that the Municipalities will undertake. These include overseeing the annual assessment, ensuring that key municipal officials are in place, and undertaking the capacity-building activities.

B. Institutional Framework and Implementation Arrangements

9. The program shall be implemented following the Government of Uganda structure at the central government and local government levels.

10. MoLHUD will be the coordinating ministry for the Program and it will be responsible for carrying out a number of capacity building activities. Thus, MoLHUD will have the overall responsibility for implementation and accounting for the Program funds to the National Parliament. Assessment of MoLHUD's capacity to implement the Program indicated staffing as a major risk to the achievement of Program's development objective. To mitigate this risk and ensure that the Ministry has the adequate staffing to fulfill its duties under the Program, a Program Support Team (PST) will be put in place prior to Program implementation. The PST will, at a minimum, be comprised of the following seven professional

staff: (i) Program coordinator, (ii) civil engineer, (iii) procurement specialist, (iv) financial management specialist, (v) urban planner, (vi) safeguard specialist, and (vii) monitoring and reporting specialist. These professionals will be mapped to the relevant departmental staff in the MoLHUD whom they will report to and provide mentoring support during Program implementation. The performance of PST staff will be evaluated annually and their services will be phased out once there is evidence that the MoLHUD is adequately staffed and has developed the necessary internal capacity to manage the Program.

11. Municipalities will be responsible for planning, budgeting, implementing and reporting on Program funded activities, consistent with their mandate under the LGs Act CAP243. The municipal chief accounting officers will be responsible for implementing and reporting on Program activities, with support from the municipal technical planning committee (heads of departments). Municipal councilors (elected representatives) and the municipal development forum (MDF) will monitor Program implementation and provide oversight functions at the municipal level.

12. In addition, the **Ministry of Finance, Planning and Economic Development (MoFPED) and the Office of the Auditor General (OAG**) will also play significant roles in Program implementation. MoFPED will be responsible for ensuring that Program resources are budgeted for and disbursed within the national Medium Term Expenditure Framework (MTEF), while the OAG will ensure that the Program audit and the value for money audits, which will begin by end of second year of Program implementation, are carried out. The **Inspectorate of Government (IG)** as the primary agency mandated to investigate and prosecute cases of corruption will be responsible for the investigation and prosecution of any case of suspected fraud and corruption. The Uganda Police through its Directorate of Criminal Investigation (CID) and the Directorate of Public Prosecution (DPP) as secondary agencies mandated to investigate and prosecute cases of crime respectively will also investigate and prosecute any case of suspected fraud and corruption. Where findings of the IG, CID and DPP disclose administrative liability, MoLHUD and the Municipalities will be responsible for enforcing the administrative action.

C. Proposed Program's Fiduciary Arrangements

i. Financial Management:

13. Central governmentCentral Government transfers account for over 90% of local government budgets. The performance of the PFM system at the Central Government is therefore of critical importance to Local Governments.

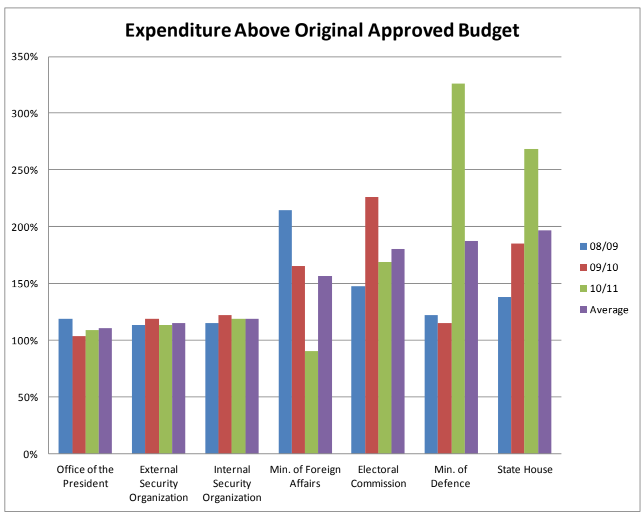
14. Public Financial Management:- Progress in Public Financial Management in Uganda over the last decade has been mixed. It has had one of the most successful implementations of the Integrated Financial Management Systems (IFMIS) in Africa at the Central Government level, it has also completed one of the most successful pilots of an easy to use IFMIS system for Local Government in 2012. The quality of Annual Accounts has improved. A locally developed budget preparation and reporting tool – Output Budgeting Tool (OBT) – has been rolled out to all spending units, the National Audit Office has been provided with legislative and financial autonomy and is currently one of the strongest in Africa, internal audit and procurement is improving and the Oversight Committees of Parliament are active and effective[4]. The operation will use the country financial management system for planning and budgeting, accounting and financial reporting, treasury management and flow of funds and internal controls, including internal audit. The independent Program audit has been introduced, tailored to the needs of the Program.

15. Some of the key challenges that currently exist at the national level are the following:

[4] The Public Accounts Committee has cleared its backlog of seven years and is now up to date. However there are delays with the discussion of these reports in Parliament.

<u>Budget Transparency</u>: There has been a reduction in budget transparency. Although the FY 12 budget was formulated with interaction with key stakeholders (civil society groups, local governments, sector working groups and development partners), debate only began after the budget was presented to Parliament in June 2011 and focused on issues such as salaries for lower-cadre public servants and energy subsidies. There are concerns that stakeholders should have the opportunity to debate before the budget's formulation. The GAPR also refers to limited consultation with affected MDAs when budget ceilings are changed, a process that is outlined in the Budget Act.

<u>Budget Execution</u>: There has been a sharp deterioration in budget execution over the last few years. In FY 11 the budget was subjected to three supplementary requests which amounted to 27.7% of the total approved budget. Around 17.8 % of this was on account of classified military equipment. Development partners in Uganda are of the view that the significant size[5]and composition of last year's supplementaries - in an election year - point to an erosion in the quality of planning, budgeting and accountability processes in Uganda. In FY2011/12, a retrospective supplementary was approved to cover under budgeting of known expenditures in FY2010/11. The 'regularization' of off-budget expenditures made without prior approval by Parliament has had the effect of undermining budgetary control. Repeated recourse to supplementary budgeting is suggestive of an assumption that spending in excess of planned allocations will be funded through supplementary budgets. The Prime Minister's Office has reported that "over the last three years, six Ministries, Departments and Agencies have consistently received supplementary spending".[6] The spending units that regularly cause budgetary disconnects are the ones who should be enforcing budget discipline.



GAPR reported that in FY 11, only four MDA's realized their approved budgets, forty experienced budget cuts ranging from 2-75%, and thirteen received an average of 57% above their approved budgets. Due to this that the expenditure deviation increased to 29.6% in FY 11, putting Uganda at the lowest level of the PEFA rating scale for the budget deviation indicator (PI-2). The Ministry of Local Government is one that has consistently received lower releases than budgetary approvals, in some years undergoing cuts of around 35%.

A PEFA Report for the Central Government was completed in September 2012. The ratings are at Annex "A". Progress has been modest between 2008 and 2012. Compared to 2008, there has been an improvement in five indicators, three have got worse and twenty three have stayed the same. On a

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[5] Supplementary budgets have grown in size from 4% of the approved budget in 2008/09, to 7.2 % in 2009/10, reaching 27.7% in 2010/11.

[6] Government of Uganda, Office of the Prime Minister, "Government Annual Performance Report 2010/ 11", page 8.

numeric basis, PEFA ratings for 2012 are almost the same as for 2008. The ratings that have deteriorated the most significantly are the ones dealing with budget execution.

<u>Policy Based Budgeting</u>: In FY 11 Uganda approved the National Development Plan (NDP). Given the experience over the last two years, it is apparent that the NDP is not aligned to the Medium Term Expenditure Framework (MTEF). In the FY 11 budget 12 out of 16 sector shares of the MTEF were broadly aligned with the NDP, but with large deviations in the security, public administration and accountability sectors. In FY 12 this reduced to 6 out of 16 sectoral allocations. This includes variances of over +/- 25% for security, health, tourism and trade, and public sector management sectors. As a result, the credibility of both the NDP as the principle overarching planning and budgeting framework and the budget as an instrument of policy delivery has been undermined. The largest cuts that have been made are in the sectors of Health, Education, Works and Transport and Energy and Mineral Development.

Sector	NDP Allocation (Billion Shillings)	Budget Approved (2010/11) & Projected (2011/12)	Variance between NDP and MTEF	Variance (%)
Agriculture	807.5	730.7	-76.8	-10%
Lands,h'sing & Urb Dvt.	43.5	47.2	3.7	8%
Energy & Mineral Development	1953.0	1621.8	-331.2	-17%
Works & Transport	2680.4	2070.6	-609.8	-23%
ICT	20.3	24.4	4.1	20%
Tourism, Trade & Ind.	155.5	94.9	-60.6	-39%
Education	2836.9	2484.9	-352.0	-12%
Health	1882.5	1320.4	-562.1	-30%
Water & Environ.	560.6	497.7	-62.9	-11%
Social Development	78.7	63.8	-14.9	-19%
Security	1089.7	1298.4	208.7	19%
Justice,Law & Order	775.9	1054	278.1	36%
Public Sector Managt.	1463.7	1662.9	199.2	14%
Accountability	974.7	1252.3	277.6	28%
Legislature	258.8	325.6	66.8	26%
Public Admin.	517.1	524.7	7.6	1%

Source: NDP 2010; BFP 2010/11; BFP 2011/12

<u>Cash releases:</u> Even within the approved budget envelop, spending units find it increasingly challenging to receive cash releases on time. Recurrent spending is particularly affected by this. First there is under budgeting for recurrent items and then there are significantly lower releases for recurrent expenditures. The share of recurrent budgets not released has increased from 3.3% to almost 13% over the last six years.

In 2011 MOFPED introduced increased accountability for release of funds through signing of performance contracts with Accounting Officers and with requiring spending units to submit physical and financial accountability reports (Form A and Form B) before new quarterly releases are made. A recent MOFPED analysis has documented that the proportion of releases being made in the first month of each quarter has fallen, while the proportion of the final month has increased.

<u>Compliance with Administrative Rules and Regulations</u>: A major challenge to the PFM system is the culture of impunity and weak compliance with rules and regulations. MoFPED's own study in 2011 came to the conclusion that "the Public Finance and Accountability Act (PFAA) 2003 and the Public Procurement and Disposal of Public Assets Acts 2003 / Local Government PPDA regulations 2006 were the most flouted laws at all levels of government. The type of PFM violations varied markedly between sectors with the most common being flouting of accounting procedures followed by irregular procurement practices; improper budgeting and implementation; false accounting and embezzlement respectively. It was also noted that despite the efforts to take action on recommendations against PFM violations, there were no mechanisms to stop recurrence. This was possibly the biggest challenge facing the PFM reforms".7 The findings of MoFPEDs study are concurred by repeated observations in both Internal Audit and External Audit reports that there is little follow up action taken on audit findings.

16. Despite these challenges, there are improvements in PFM in Uganda as documented in audit findings as well as through the initiative to introduce a new Public Finance Act that has provisions designed to address some current weaknesses such as the increase in supplementary budgets and through limiting reallocations between votes. At the Central Government level, the number of entities with a clean audit opinion increased from 40% to almost 60% in the last three years, and at the local government level the increase was from 26% to 45%.

Type of Audit Opinion: Central Government						
	2009	%	**2010**	%	**2011**	%
Unqualified	37	40%	40	40%	61	59%
Qualified	54	58%	58	57%	41	40%
Disclaimer	1	1%	3	3%	1	1%
Adverse	1	1%	0	0%	0	0%
Total	93		101		103	

Type of Audit Opinion: Local Governments						
	2009	%	**2010**	%	**2011**	%
Unqualified	53	26%	81	36%	135	45%
Qualified	153	74%	142	62%	152	50%
Disclaimer		0%	5	2%	11	4%
Adverse		0%	0	0%	3	1%
Total	206		228		301	

Local Government

17. Article 176 (1) of the Constitution as well as the Local Government Act stipulate the system of Local Governments shall be based on the district as a unit under which there shall be lower local governments and administrative units. As can be seen in the table above, there have been systemic improvements in local governments. New financial management and accountability regulations were issued in 2007, the number of Bank accounts in higher level local governments have been reduced to 12, and IFMIS systems are being introduced. The Tier 1 Oracle system is now running in 8 LGs and by the end of calendar year 2012, the Tier 2 system (Microsoft Dynamic) is expected to be operational in 26 LGs.

Annual reports of the Auditor General indicate on-going financial irregularities. In the In FY 2009/2010, the audit report states that there was failure to account for funds of UGX 11.6 bn (equivalent to around US$ 4.6m), UGX 34.2 bn (US$ 13.6m) expenditure was not fully compliant with procurement laws, UGX 988m (US$395,000) of funding was diverted and wasteful expenditure amounted to UGX 227m (US$90,800)[8]. Some of the key challenges at the local government level are the following:

Financial constraints on local governments: The Fiscal Decentralization Strategy that was introduced in FY 2002 has only partly been implemented. A status note on the challenges in FDS is at Annex "B".

[7] MOFPED BMAU) (February 2011), "Study on Non Compliance in Public Financial Management in Uganda", pages 112-114.
[8] Total annual local government expenditure is roughly estimated at about USD$650m for FY 13/14.

Local Governments are highly constrained financially, both as regards Own Source revenues (OSR) as well on account of reducing transfers. OSR as a share of LG budgets have decreased from 22% (FY 2000) to 13% (FY 06), to between 5 and 10 per cent today. This is due to the abolition in 2003 of the Graduated Tax, which was then the main source of local revenues. Its replacement by the GT compensation transfer or the introduction of new taxes such as Hotel Tax and Local Service tax have not compensated for the loss of this source of revenue.

Total intergovernmental transfers to local government increased significantly in recent times - from $317m in 2004/05 to $517m in 2009/10 . However, in real terms, allocations have not kept up with population growth and LG grants as a share of GDP has declined. Conditional onditional grants have increased to close to 90% of LGA allocations, conversely unconditional grants have reduced from 35% to 11% and the share of the Performance Based Grant – LDG – has reduced from 38% to 16%.

	1995/96	2000/01	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Total Grants to LGs (Ush Mn.)						869	982	1061	1239	1339	1490
Conditional grants (Ush. Mn.)						734	849	923	1014	1161	1285
Unconditional Grants (Ush. Mn.)						97	84	123	123	129	157
Dev.Discretional (LDG) (Ush. Mn.)						64	64	64	64	63	64
Total grants to urban LGs (Ush. Mn.)						56	61	64	71	79	96
Conditional grants						84%	86%	87%	82%	87%	86%
Unconditional Grants	35%					11%	9%	12%	10%	10%	11%
Dev.Discretional (LDG)						7%	7%	6%	5%	5%	4%
Total grants to urban LGs						6%	6%	6%	6%	6%	6%
Total per cap. grants (Ush)				29,175	28,480	26,190	25,599	25,485	24,102	22,627	21,937
LG grants as share of GDP			5.40%	5.30%	5.00%	NA	4.80%	4.40%	3.90%	3.90%	
LG Grant as share of budget								24%	23%	19%	17%
Devt. grants as share of total grants		22%	20%	22%	19%	17%	13%	12%	13%	16%	17%
LDG as % of total dev. Grants				38%	38%	35%	39%	36%	28%	20%	16%

A significant increase in administrative overheads has not helped the situation. The proliferation of new districts is primarily responsible for this.The number of districts in Uganda over the last ten years has almost increased three times from 44 to 111.

Councils	2000	2004	2006	2008/9	Jul-10
Higher LGs:					
- District Councils	44	55	69		111
- City Council	1	1	1	1	1
- Municipal Councils		13	13		22
Lower LGs:					
- Sub-counties		857	900		
- Parishes			5,225		7,138
- Town Councils		69	88		144
- Municipal Divisions		34			56
- City-divisions		5			5

There has been no commensurate increase in the salary bill for financing all the positions in these new districts. The MTEF can only fund 62.8% of salary costs in districts and 61.6% in urban municipalities.

FY 10 Estimates	Nos	Salary Costs per unit in UGX, million	Amounts required, UGX billion	MTEF provisions, UGX billion	Provision as % of requirement
DISTRICTS					
- Model 1	70	685.1	48	30.1	62.80%
- Model 2	12	848.4	10.2	6.4	62.80%
- Model 3	5	1,031.90	5.2	3.2	62.80%
S/counties	917	43.1	39.6	24.8	62.80%
Total			**102.9**	**64.6**	**62.80%**
URBAN					
- Model 1	100	180	18	11.3	62.80%
- Model 2	10	291.6	2.9	1.8	62.80%
- Model 3	14	381.1	5.3	3.3	62.80%
Divisions	27	76	2.1	0.9	45.80%
Total	**151**		**28.3**	**17.4**	**61.60%**

Low salaries, combined with inadequate funding for these positions in the budget has resulted in an extremely high proportion of key positions not being filled. It is a serious matter of concern that around half of the positions of Chief Administrative Officers are empty in districts as well as 43% of positions of Chief Finance Officers and 51% positions of Principal Internal Auditors, and in municipalities around half the positions of Municipal Engineers are empty along with 57% vacancies of the Principal Medical Officer and 50% of Principal Education Officer.

Strategic Position (District)	**Total Positions Available**	**Total Positions Filled**	**Total % filled posts**
Chief Administrative Officer	112	58	52%
Deputy Chief Administrative Officer	112	63	56%
Principal Personnel Officer	112	49	44%
Chief Finance Officer	112	64	57%
District Planner	112	61	54%
District Education Officer	112	66	59%
District Health Officer	112	58	52%
District Production Coordinator	112	46	41%
District Engineer	112	35	31%
District Community Development Officer	112	52	46%
Principal Personnel Officer – DSC	112	43	38%
District Natural Resources Officer	112	28	25%
Principal Internal Auditor	112	55	49%
Total	1456	678	47%

Strategic Position (Municipality)	**Total Positions Available**	**Total Positions Filled**	**Total % filled posts**
Tow n Clerk	14	6	43%
Deputy Tow n Clerk	14	6	43%
Senior Personnel Officer	14	8	57%
Principal Treasurer	14	9	64%
Senior Planner	14	7	50%
Principal Education Officer	14	7	50%
Principal Medical Officer	14	6	43%
Principal Municipal Engineer	14	7	50%
Principal Commercial Officer	14	4	29%
Principal Community Development Officer	14	6	43%
Total	140	66	47%

Such as large proportion of unfilled positions increases the fiduciary risk at local governments and adversely impacts their ability to discharge their functions.

Planning: Planning remains a major challenge in local governments. For example, Budget Call Circulars were issued three times while preparing the budget for FY 2012/13. These were issued in November 2011, April 2012 and May 2012. The first two circulars required LGs to use the Indicative Planning Figures (IPFs) for the previous year, while the May circular issues fresh IPFs. The Local Government Finance Commission in its recent report of September 2012 examined changes in IPFs for s few selected grants in a few local governments. Such frequent changes in IPFs make the planning process in LGs extremely challenging.

	Soroti		Arua		Kisoro		Namayingo		Wakiso	
	1st to 2nd IPF	2nd to 3rd IPF	1st to 2nd IPF	2nd to 3rd IPF	1st to 2nd IPF	2nd to 3rd IPF	1st to 2nd IPF	2nd to 3rd IPF	1st to 2nd IPF	2nd to 3rd IPF
Total - All grants	19%	7%	4%	5%	8%	17%	7%	6%	9%	2%
UCG - Non-wage	8%	-12%	-1%	-1%	0%	-1%	-6%	0%	-1%	4%
UPE Capitation	3%	0%	-2%	0%	-1%	0%	11%	0%	1%	0%
PHC non-wage	0%	0%	35%	0%	0%	0%	0%	0%	0%	0%
Rural Water	102%	9%	19%	9%	0%	16%	0%	17%	0%	17%
CDW	36%	3%	58%	-16%	23%	3%	26%	3%	54%	-13%

Reporting: Multiple reporting requirements impose significant additional work load on the limited staff available in local governments. Form "B" was introduced by MOFPED in the expectation that it will reduce the reporting requirements of local governments. However that has not happened. A recent review by the Local Government Finance Commission has shown that each local government is required to produce around 66 reports on an annual basis.

Sector / Area	OBT	Sector specific	Donor specific	Other reports	Total number of reports
Education	4	3	-	1	8
Health	4	4	2	4	14
Water	4	2	-	2	8
Works	4	4	2	1	11
Agriculture / Production	4	3	2	3	12
Administration	4	4	3	2	13
Total Reports submitted in a year					**66**

MOFPED had earlier mandated that quarterly release of funds would be conditional upon Form "B" reports being received on time. However a recent Presidential directive cancelling this requirement has weakened the incentives for timely reporting. A related challenge is the multiplicity of systems operating at Local Governments that do not exchange data with each other reporting in manual transfer of information. A list of the main systems is at Annex "C".

Fund Flows: As is the case in for the Central Government, one of the biggest challenges that LGs face is predictable and timely flow of resources from the Central Government. MoFPED had recently completed a study on "Core Spending Constraints in Uganda's Higher and Lower Local Governments"[9]. The key finding of this study was that there are eight stages in transfer of funds to end users in local governments and that in some sectors it takes on average between 42 to 85 days for funds to reach end users due to a variety of administrative and procedural bottlenecks.

[9] MOFPED (BMAU) (October 2011), "Core Spending Constraints in Uganda's Higher and Lower Local Governments".

This finding of MOFPED is corroborated in a recent report issued by the Local Government Finance Commission. LGFC's finding is that the average delay between the start of the quarter and release of funds (non wage releases) is around 5 weeks.

QUARTER	DATE OF RELEASE (Source – MoFPED)		DATE OF RECEIPT BY WAKISO LG	Period between release and receipt (weeks)	Period between start of quarter and receipt of funds.
Financial Year 2011/12					
Qtr 1: Jul-Sep '11	PAF / Non-PAF	20/07/2011	09/08/2011	3	6
Qtr 2: Oct-Dec '11	PAF / Non-PAF	20/10/2011	02/11/2011	2	5
Qtr 3: Jan-Mar '12	PAF / Non-PAF	16/01/2012	01/02/2012	2	4
Qtr 4: Apr-Jun '12	PAF / Non-PAF	10/04/2012	08/05/2012	4	5
Average delay in releases across the Financial Year 2011/12				**3 weeks**	**5 weeks**

Unspent Balances: Linked to the issue of late release of funds is the issue of Local Governments returning unspent balances of conditional grants to the Central Government at the end of the financial year. Several LGs have large unspent balances of development funds at the end of the FY which need to be returned, in part because they have been received late.

Local Government	Development Releases 2010/11	Unspent balances (Devt) 2010/11	Proportion of unspent balances to releases (development)
Masindi	3,490,818	60,724	1.74%
Kisoro	2,241,636	102,678	4.58%
Mpigi	2,047,230	432,194	21.11%
Soroti	3,461,853	1,196,882	34.57%
Kapchorwa	2,374,190	653,593	27.53%
Arua	7,103,102	373,630	5.26%
Luweero	3,096,057	253,579	8.19%
Kiruhura	2,921,716	59,758	2.05%
Total	26,736,602	3,133,038	**11.72%**

LDG - Performance Based Grant (PBG) National Assessments: USMIDP builds on the LGDP assessments that have been underway in Uganda since 2000. Under this program specified criteria were to be met by LGs to make them eligible for receiving funding under the program. The criteria that is applied is the following:

Level of Local Government	Minimum Conditions		Performance Measures	
	MC parameters	**Indicators**	**PM Parameters**	**Score**
Higher Local Government	A). Functional Capacity for Planning	1. 3-Year rolled Plan 2. Functional TPC 3. Linkage between the investment Plan, Budget and BFP	A. Quality of the Development Plan B. Staff Functional Capacity , Monitoring and Mentoring (LGTPC Performance) C. Capacity Building Performance D. Communication and Accountability Performance E. Budget Allocation Performance F. Procurement Capacity and Performance	10 10 10 10 10
	B). Functional Capacity in financial management and Internal Audit	1. Draft final accounts for previous year 2. Functional Internal Audit		

	C). LREP	1. Existence of LREP and budget	G. Local Revenue Performance H. Gender Mainstreaming Performance I. Operation and Maintenance J. Council, Executive and Committee K. Council Sector Committees L. Functionality of Education Dept. M. Functionality of Health Directorate N. Functionality of Water Dept O. Functionality of Works Dept P. Functionality of Production Dept Q. Functionality of Environment Dept. R. HIV/AIDS Mainstreaming S. LOGICS Monitoring system	10 10 10 10 10 10 10 10 10 10 10 10 10
	D). Functional Capacity for Capacity Building Planning	1. 3-year Capacity Building Plan and budget		
	E). Project Specific Conditions	1. Co-financing in place.		
	TOTAL	**8 Indicators**	**19 Indicators**	

18. The result of this assessment in FY 09 was that around thirty percent of districts received a penalty for not meeting minimum conditions, as did 23% of municipalities. On performance measures, 20% districts received a penalty while the others were either static or received a reward (20% increased funding for LDG funds).

National Assessment 2009				
	Reward	Static	Penalty	Total
Minimum Conditions				
Local Governments	34	24	22	80
	43%	30%	28%	
Municipal Governments	6	4	3	13
	46%	31%	23%	
Performance Measures				
Local Governments	39	25	16	80
	49%	31%	20%	
Municipal Governments	8	5	0	13
	62%	38%	0%	

19. Some of the challenges that the National Assessment process has faced in recent years are:

- *Funding*: This has been a challenge since donor funding stopped in 2010. Given that this is a cost intensive exercise finding adequate funding for undertaking this task has been challenging.
- *Quality assurance*: Up to 2010 an independent quality assurance team was commissioned to ensure that the National Assessment team was strictly following prescribed procedures. Due to cost considerations this process has been stopped. Now the NAT itself is responsible for QA.
- *Timing*: The Assessment was expected to be completed by January 15 every year to be able to feed into the Local Government Budget Framework Paper. However there are timing challenges, and the result of the assessment for FY 12 is still to be published.
- *Assessment days*: The NAT is currently spending on average two days at a municipality to conduct the assessment. This is after the entity being assessed has completed its own self assessment. Two days could be inadequate considering the large number of indicators to be assessed.
- *Grace period*: A new procedure has recently been introduced of a grace period, whereby local governments are given a grace period of one month to meet all the minimum conditions. Revised inputs provided by local governments cannot be assessed again on the ground due to budgetary constraints. In addition there is an emerging procedure of granting "waivers". It is due to this "waiver" process that all districts have been considered to have met all minimal conditions during the last two financial years.

- *Questionable Impact*: Under the National Assessment procedure, a district could receive a penalty resulting in 20% reduction in LDG funding to that council. What this does is that it reduces the budgetary allocation, but does not necessarily result in any administrative action against the CAO or management team in the council. There are CAO's in position whose districts received a penalty five years in a row, but it does not seem to have any impact on their individual careers. One reason could be the minimal funding flowing through LDG compared to the overall budget of the district.

20. **PEFA Assessment of Local Governments:** A PEFA assessment of ten local governments has just been completed.[10] The detailed score for these ten local governments is at Annex "D". This assessment has shown that some of the biggest challenges facing local governments were in the areas of budgeting for revenues, tax collection and management and budget execution. Within the ten local governments that were assessed, there was quite a bit of variability in their PEFA scores, with some local governments scoring a little worse than some countries recently emerging from conflict.

21. These weaknesses have been taken into account while designing this project that builds on the existing LDG system in Uganda. However, it should be stressed that a number of the general features noted above are not necessarily characteristic of the municipalities on which the Program focuses, which are stronger – in some respects – to typical LGs in Uganda (see below).

[10] Government of Uganda, Uganda LG PEFA Consolidated Report (August 2012).

ii. Fraud and Corruption

22. ***Uganda has a comprehensive institutional, legal and policy framework to improve the governance environment and address the problem of corruption in the country***. The primary agency mandated to lead the overall fight against corruption is the Inspectorate of Government. There are other national agencies with mandates where corruption is one element. These include the Directorate of Public Prosecutions, Office of the Auditor General, Uganda Police through its Directorate of Criminal Investigation, Public Procurement and Disposal of Public Assets Authority and the Anti-Corruption Division of the High Court. The legal framework is governed by the Constitution of Uganda (1995) and key legislation such as Inspectorate of Government Act (2002), Leadership Code Act (2002), Public Finance and Accountability Act (2003), Public Procurement and Disposal of Public Assets Act (2003) (as amended), Access to Information Act (2005), Anti-Corruption Act (2009), and Whistleblowers Act (2010). The 5-year National Anti-Corruption Policy now in its third phase (2009-2013), designed by the Directorate of Ethics and Integrity is the main tool for implementing the national policy of "zero" tolerance for corruption.

23. ***Enforcement of anti-corruption legislation and administrative sanctioning remain a serious challenge in the raising the bar against corruption*****.** Although the country has put in place an effective institutional, legislative and policy framework to address corruption, the 1st and 2nd Annual Reports on Corruption Trends in Uganda using the Data Tracking Mechanism both highlight the fact that Uganda scored very highly (99%) on having good legislation to prevent and detect corruption yet scored weakly (45%) on enforcement resulting in Uganda having the largest implementation gap[11]. The Annual Reports also paint a picture of deteriorating governance and corruption trends in the country, a scenario which is corroborated by other national and international assessments, reports and surveys.

24. ***Poor adherence by public officials to public financial management laws and regulations is one of the major constraints to improving service delivery.*** The Study on Non-Compliance in Public Financial Management in Uganda published in 2011 by BMAU reported that the Public Finance and Accountability Act (2003) and PPDA Act (2003) and Local Government PPDA Regulations (2006) were the most violated laws at all levels of Government. The most common violations were flouting of accounting procedures, irregular procurement practices, improper budgeting and implementation, false accounting and embezzlement and these were indirect methods to embezzle public funds that the Program is likely to encounter.

25. ***The 2nd Public Procurement Integrity Survey 2010 published by PPDA reported that the majority of providers have paid a bribe of 10 to 20% of contract value, an increase from 7-9% reported in the 2006 survey*****.** There have also been several high-level alleged corruption cases of abuse of office and embezzlement of public resources occurring during the last four years, none of which has been fully resolved as yet. Furthermore, the growing erosion of competencies and reduced financing of accountability institutions that spearhead the fight against corruption could be seen as a sign of a structural lack of political commitment to addressing increasingly deep-seated governance issues. The Integrity Department of the World Bank (INT) has also in the past fielded reviews and investigations of allegations of fraud and corruption in Bank financed programs in Uganda in different sectors some of which have resulted in the debarment of a number of local firms and individuals[12]. These have dented the credibility of the national policy of "zero" tolerance to corruption.

26. ***The Inspectorate of Government (IG) has continued to be weakened by Court rulings involving high-profile personalities.*** Court rulings of the Supreme and Constitutional Courts in the past decade

have significantly weakened the IG. The Supreme Court in 2004 ruled that some sections of the Leadership Code Act, 2002 (LCA) affecting presidential appointees violated the Constitution[13]. The Court also ruled in 2010 that the IG could not enforce the LCA against specified leaders in the absence of the Leadership Code Tribunal envisaged by the Constitution[14]. The LCA has never been amended nor the Leadership Code Tribunal established despite the obviously crippling effects of these rulings. The Constitutional Court ruled in 2012 that the IG could not discharge its prosecution function without being constituted in accordance with the Constitution[15]. These rulings have reinforced the belief that the judicial process has been an obstacle rather than an instrument in the overall fight against corruption and impunity in the country.

27. ***Citizen demand for good governance remains weak and appears to have created a sense of apathy amongst common citizens.*** While efforts have been made previously to introduce direct accountability mechanisms, such as citizen report cards and expenditure tracking, those initiatives remain few and too local. While being more active, the civil society remains disorganized. Strengthening direct accountability should therefore remain an important element of the reform agenda**.**

28. ***Local Governments have not been immune from the challenges of the overall governance environment*****.** The 2nd National Integrity Survey (NIS) undertaken by the Inspectorate of Government in 2002 singled out District Tender Boards for the extent to which they abused their powers and rated the Boards (dissolved in 2005 as part of national reforms in the procurement system) as the second most corrupt institution. The 3rd NIS undertaken in 2008, rated both Municipal and Town Councils as the 8th most corrupt institutions with the forms of corruption including bribery, embezzlement and fraud.

29. ***Local Government was viewed by majority of respondents (69.6%) as having most prevalent cases of corruption in public procurement as compared to 30.4% who mentioned Central Government according to the 2nd Public Procurement Integrity Survey (2010) published by the Public Procurement and Disposal of Public Assets Authority.*** Majority of respondents (81%) also indicated that they offered gratifications to public officials in Local Government compared to 19% to officials in Central Government revealing an apparently higher level of corruption in Local Government. The Inspectorate of Government's Report to Parliament (Jan-June 2011) indicate that complaints[16] against Municipal and Town Councils accounted for 8.5% of the total complaints received in this period ranking these Local Governments as the third most complained against institutions after District Administration and Public Officials.

30. The annual report of the Auditor General on financial audits carried on District Local Governments, including Municipal Councils for FY 2009/2010, similarly reveals instances of irregularities such as failure to account for funds (UGX 11.6 Billion), procurement anomalies (UGX 34.2 Billion was spent without following procurement laws), diversion of funds (UGX 988 Million) and wasteful expenditure (UGX 227 Million).

31. From a fraud and corruption perspective, the USMID program is high risk.

iii. Procurement and Procurement System

32. Procurement is governed by the Procurement and Disposal of Public Assets Law, (PPDA Act 2003). The Act was amended in May 2010 and the amended Act is expected to be effective soon. The Act t LG level is complemented by the Local Government Procurement Regulations of 2006. The Act decentralizes the procurement function to the spending agencies including the Municipalities. The agencies have subsequently established Procurement and Disposal units (PDUs) in each of the MCs and Ministries responsible for implementation of day-to-day procurement activities. The Act establishes Contracts Committees (CCs) in each spending agency which are responsible for prior reviewing and deciding on all key procurement stages. The Act also establishes the Public Procurement and Disposal Authority (PPDA) as an independent Procurement Regulatory Agency that is responsible for oversight in public procurement and second level for handling of complaints. The PDPA also conducts annual procurement audits although its coverage is still limited.

33. The rules and procedures prescribed in the Act are published in the national gazette and also on the Procurement Authority (PPDA) website. These rules are clear and enforceable and are freely accessible to the public. The amended Act and regulations are generally based on clear, mandatory and enforceable rules and are therefore appropriate for achievement of procurement objectives under the program when adhered to.

34. ***Procurement Planning***. Procuring entities are required to prepare annual procurement plans which are submitted to the Ministry of Finance together with their work plans as part of the budgeting process. The amended procurement Act additionally requires the quarterly publication of procurement plans at the entity notice boards and the PPDA website.

35. The Procurement law prohibits fraud and corruption in procurement and requires public officials and suppliers to government to sign and adhere to a code of ethics in procurement. The revision to the act also makes contracts determined to have been procured involving fraud or corruption voidable at the option of the Government.

36. ***Thresholds for use of procurement methods.*** Under the Act, Open Domestic bidding (National Competitive bidding) is the default procurement method and under this, advertising of bidding opportunities is mandatory. The conditions for the use of the other methods are clearly specified under the Act with thresholds specified for all of them except International Competitive bidding as follows:

Table 1 Current Thresholds for procurement methods

No	Procurement method	Threshold	
1	***Works***	**Local Government**	**Central Government**
	Open domestic bidding	Above US$ 25,000 or U Shs 50,000,000	Above US$ 50,000 or U Shs 100,000,000
	Selective Bidding / Restricted Bidding	Below US$ 25,000 of U Shs 50,000,000	Below US$ 50,000 or U Shs 100,000,000
	Quotation Procurement		Below US$ 40,000 or U Shs 80,000,000
2	***Goods***		
	Open domestic bidding	Above US$ 15,000 or U Shs 30,000,000	Above US$ 35,000 or U Shs 70,000,000
	Selective Bidding / Restricted Bidding	Below US$ 15,000 of U Shs 30,000,000	Below US$ 35,000 or U Shs 70,000,000
	Quotation Procurement		Below US$ 15,000 or U Shs 30,000,000
3	*Services*		
	Open domestic bidding	Above US$ 15,000 or U Shs 30,000,000	Above US$ 25,000 or U Shs 50,000,000
	Selective Bidding / Restricted Bidding	Below US$ 15,000 of U Shs 30,000,000	Below US$ 25,000 or U Shs 50,000,000
	Quotation Procurement		Below US$ 15,000 of U Shs 30,000,000
4	Open International Bidding for works, goods and services	Where competition will not be effective without foreign bidders or where foreign bids increase value for money	
5	Micro procurement for works, goods and services	Below US$ 500 or U Shs 1,000,000	Below US$ 1,000 or U Shs 2,000,000

37. The above thresholds are considerably low and it may not be cost effective to advertise all opportunities above $15,000 for MCs and US$ 35,00 for CG. Whereas the PPDA has established a central website / portal for advertising of opportunities, its use is still limited by both government entities and the private sector. The thresholds therefore are currently under review by the Authority and are expected to be increased when the new Act becomes effective with a possibility of doubling the current threshold amounts.

38. ***Bidding Documents***. The PPDA has issued the following Standard Bidding Documents (SBDs) for Local Governments which are used by the municipalities:

Central Government	Local Government
1 Bidding document for consultancy services under open and restricted bidding; 2 Bidding document for goods under open domestic bidding; 3 Bidding document for goods and works under selective bidding; 4 Bidding document for works under open domestic bidding; 5 Request for Quotations and Proposals	1 Bidding Document for Goods and works under selective / restricted bidding; 2 Bidding document for goods under open domestic bidding; 3 Bidding document for works under open domestic bidding; 4 Request for Proposal document for Consultancies.

39. The bidding documents are accompanied by user guides to assist the entities in completing them. The documents were reviewed and are considered generally acceptable. The Bidding Document for Goods and works under selective bidding for Local Government is actually a Request for Quotations and

shall only apply for quotations procedures. The PPDA has not prepared an SBD specific for international competitive bidding (ICB) and usually the same document for NCB is adopted and has been used without any major problems in the last 7 years.

40. The SBDs used for open domestic bidding are comprehensive in nature and contain all the relevant information which should enable bidders to prepare responsive bids. The evaluation criteria are generally non-discriminatory and encourage competition. The general conditions of contract for both the bidding document and RFP are generally comprehensive clauses to ensure satisfactory performance of the contract. The conditions also provide remedies for non-performance.

41. ***Complaints handling***. Complaints submitted are addressed at 2 levels, i.e. the first level of review by the Procuring Entity itself specifically the Town Clerk for the MCs and the Permanent Secretary for Ministries. Where a bidder is dissatisfied with the response, the next level of review is the PPDA. The amended law introduces a third level of appeal to an Appeals Tribunal in case the bidder is dissatisfied with the PPDA decision or feels that the PPDA could have a conflict and would not give them a fair hearing e.g. if they have previously advised the MC on the procurement. However both MCs and Ministries do not maintain logbooks of complaints received and their resolution and there's therefore limited information available on complaints handling at the entity level.

42. The PPDA law has put in place a code of Ethics to be signed and adhered to by PDU staff, members of evaluation committees and CC members. There is also a similar code that the contractors are required to adhere to.

I. Program Expenditure Framework

43. ***Program expenditure framework –***The total Program funding, given in the table below, is US$160 million of which IDA financing is US$150.0 million (94%) and GoU funding is US$ 10 million (6%) over the five (5) years (2013 – 2018) Program period. US$ 136 million will constitute grants (MDG/MCBG) that will go directly to the 14 municipal LGs. US$ 24 million will support and leverage MoLHUD and the municipal LGs capacity building, including system improvements directly linked to the Program execution. The Program funds will flow from the Treasury to the MoLHUD and the municipal LGs and will be disbursed on a bi-annual basis. The Government's program (LGMSD) currently uses funds flow mechanisms to disburse funds to all LGs nationally and the Program will use these channels which have been well established over the years (see Annex 1 for funds flow details).

USMID financing and expenditure framework

ITEM	AMOUNT (US$)	OF TOTAL
Estimated Program Expenditures		
Grants to Municipalities	136,000,000.00	85%
Central Government executed activities for grant administration and capacity support	24,000,000.00	15%
TOTAL	160,000,000.00	100%
Program Funding Sources		
IDA	150,000,000.00	94%
GoU	10,000,000.00	6%
TOTAL	160,000,000.00	100%

44. The GoU general rules governing the utilization of donor funded as well as government financed activities will govern the utilization of the Program fund. These rules are clearly elaborated in the Public

Finance and Accountability Act 2003 and Accountant General Treasury Manual. The rules for the utilization of the Program funds will therefore be the same as that of the LGMSD funds, with minor modifications, to respond to some of the differences as evidenced by the difference in the menu of investment activities that can be taken under the LGMSD and the USMID.

45. ***Program expenditure as a percentage of the government program*** **-** The total Program expenditure of US$ 150 million (UGX375 billion[17]) for five years will be equivalent to 64.2 percent of the estimated government program (LGMSD) transfers of US$ 233.69 million (UGX 584.22 billion) to LGs over the same period. However as a percentage of total direct discretionary funds transfers (unconditional grant, LGMSD and equalization grants) from central government to LGs, the USMID Program expenditure will be only 20.6% of the US$ 728.48 million (UGX1,821.21 billion) to be transferred over the Program period.

46. ***Estimated disbursement for the MDG and CBG in FY2013/14 are given in the table below***[18]**.** The MDG ceilings have been determined on the basis of an assessment of a number of different variables, including funding levels required to meet urban infrastructure investment needs, Municipal absorbability constraints, incentive effects, and funding constraints. MDG inflows in the first year of the Program (under DLIs 1, 2 and 4) will increase average Municipal revenues by around 75%. With specific regard to revenues to fund development activities, these will rise, on average, from around US$ 155, 657 (pre-USMID) to around $1.6m. Once DLI 3 is introduced, in FY15/16 - by which time substantial additional capacity is expected to have been built in the target Municipalities - MDG amounts will increase by an additional average amount of around $950,000 per municipality. These increases will fundamentally change the fiscal position of the target Municipalities and will put them in a position to deal with their key infrastructure development challenges much more effectively than can possibly do under current circumstances. It will also have very powerful performance incentive effects. The CBG amounts have been determined on the basis of an assessment of the likely training and systems strengthening costs that will need to be borne by the target Municipalities annually. It will be noted that the CBG is front-loaded over the course of the Program on the assumption that as capacity is built and sustained capacity-building activities will gradually decline.

[17] Exchange rate: US$1 = UGX2500.

[18] The estimates provided in the table assume that all Municipalities achieve the Minimum Conditions and the Institutional Results performance targeted in the DLI matrix and that overall Municipal fiscal performance in FY13/14 – outside of the USMID grants – is basically the same as for FY10/11 (the most recent year for which all relevant data are available). The CBG amount will remain constant over the life of the Program, whereas MDG will increase starting in FY2014/15 with the disbursement against DLI 3.

Estimated MDG and MCBG disbursements

All figures in US$	**2013/14**
Total USMID to all Program LGs	20,100,000
- MDG	- 17,600,000
- MCBG	- 2,500,000
Average USMID per Program LG	1,435,714
- MDG	- 1,257,143
- MCBG	- 178,571
Total Program LG budgets	46,780,400
- of which own source revenue	- 6,724,000
- of which existing grants	- 19,956,400
- of which USMID	- 20,100,000
- Increase in total budget with USMID	- 75%
Average budget of each Program LG	3,341,457
- of which USMID	- 1,435,714
- of which total development revenue (inclu. USMID)	- 1,591,371
- Increase in average budget with USMID	- 75%

47. In addition to the MDG and CBG flows themselves, the Program will involve a number of activities which will be centrally executed by MoLHUD to ensure that the grant is effectively administered, monitored and reported on, and to support and guide the capacity-building activities that the Municipalities will undertake. These include overseeing the annual assessment, ensuring that key municipal officials are in place, and undertaking capacity-building activities. DLIs 5, 6 and 7, accounting for 15% of the total Program cost, focus on results in these areas.

48. Profile of procurable items. The size of contracts will range from US$ 100,000 to US$ 2 million with none of the contracts is expected to exceed US$ 3 million. The items procured will be drawn from the above menu depending on the priorities of the municipal LGs. Each municipal LG is expected to implement a maximum of 4 projects pr year in order to avoid fragmentation of investments. There will therefore be no OPRC threshold procurements under the Program.

III. Table 2: Program Fiduciary Performance and Significant Fiduciary Risks

A. Fiduciary Performance

49. A financial management assessment was carried out of the 14 Urban Local Governments that are the beneficiaries of this Program. A summary of their financial operations for the last five years are as below:

Revenues:

- Around 80% of revenues are on account of Central Government Transfers (CGT)
- 20% are on account of Own Source Revenues (OSR), which is higher than the average for LGAs
- Of the Central Government transfers, around 70% is for meeting recurrent expenditures and only 10% is for development expenditures.

	2005/06	2006/07	2007/08	2008/09	2009/10
CGT	**43.6**	**45.9**	**52.1**	**41.9**	**51.1**
Recurrent CGT	36.4	42.2	48.3	38.3	44.9
Capital CGT	7.2	3.5	3.8	3.6	6.2
OSR	**7**	**7.9**	**8.6**	**9.4**	**12.8**
Tax revenue	1.65	1.8	2.79	3.87	5.86
Non tax revenue	5.3	6.06	5.86	5.53	6.95
Donations	**0.3**	**0.4**	**1**	**0.6**	**0.3**
Total (Ush. Bn.)	**50.9**	**54.2**	**61.8**	**51.9**	**64.2**
CGT	**86%**	**85%**	**84%**	**81%**	**80%**
Recurrent CGT	**72%**	**78%**	**78%**	**74%**	**70%**
Capital CGT	**14%**	**6%**	**6%**	**7%**	**10%**
OSR	**14%**	**15%**	**14%**	**18%**	**20%**
Tax revenue	**3%**	**3%**	**5%**	**7%**	**9%**
Non tax revenue	**10%**	**11%**	**9%**	**11%**	**11%**
Donations	**1%**	**1%**	**2%**	**1%**	**0%**

- Of Own Source Revenues (OSR) around half is on account of tax revenues and the other half for Non Tax Revenues.
- Within tax revenues, the fastest growing component has been property taxes, which now account for around half of tax revenues. Over the last five years, tax revenue from property taxes has grown five times.
- On the non tax side, the largest single component is Park Fees. These now account for a little less than half of non tax revenues.

	2005/06	2006/07	2007/08	2008/09	2009/10
Tax Revenue					
Property Tax [Rates]	0.63	0.51	1.19	1.92	3.08
Licenses	0.37	0.72	0.74	0.91	1.3
Land fees/other	0.65	0.58	0.84	0.74	0.59
New taxes	-	-	0.01	0.3	0.89
Total tax revenue	**1.7**	**1.81**	**2.8**	**3.9**	**5.86**
Non Tax Revenue					
Park Fees	1.51	1.73	2.05	2.18	3.12
Sale of assets	0.31	0.83	0.6	0.56	0.93
Market dues	0.28	0.46	0.47	0.63	1.01
Ground rent	0.05	0.21	0.11	0.1	0.25
Property related fees	0.02	0.13	0.09	0.11	0.3
Agency/tender fees	0.09	0.07	0.1	0.09	0.13
Advertisement	0.02	0.06	0.09	0.1	0.18
Inspection fees	0.05	0.08	0.07	0.1	0.15
Rent from buildings & hire of assets	0.19	0.06	0.08	0.03	0.04
Abattoir	0.02	0.07	0.09	0.07	0.08
Others	2.74	2.35	2.12	0.16	0.75
Total non tax	**5.3**	**6.06**	**5.9**	**4.1**	**6.95**
Total Own Source Revenue (Ush. Bn.)	7	7.87	8.7	8	12.81

	2005/06	2006/07	2007/08	2008/09	2009/10
Tax Revenue					
Property Tax [Rates]	9%	6%	14%	24%	24%
Licenses	5%	9%	9%	11%	10%
Land fees/other	9%	7%	10%	9%	5%
New taxes			0%	4%	7%
Total tax revenue	24%	23%	32%	49%	46%
Non Tax Revenue	0%	0%	0%	0%	0%
Park Fees	22%	22%	24%	27%	24%
Sale of assets	4%	11%	7%	7%	7%
Market dues	4%	6%	5%	8%	8%
Ground rent	1%	3%	1%	1%	2%
Property related fees	0%	2%	1%	1%	2%
Agency/tender fees	1%	1%	1%	1%	1%
Advertisement	0%	1%	1%	1%	1%
Inspection fees	1%	1%	1%	1%	1%
Rent from buildings & hire of assets	3%	1%	1%	0%	0%
Abattoir	0%	1%	1%	1%	1%
Others	39%	30%	24%	2%	6%
Total non tax	76%	77%	68%	51%	54%

- On the expenditure side, around 60% of the budget is utilized for meeting the wage bill, around 33% for Operation and Maintenance expenditures, and less than 10% of the budget is utilized for development spending.

Billion Shillings	2005/06	2006/07	2007/08	2008/09	2009/10
Recurrent –Wage	28	34	35	31	38
Administrative salaries	4.19	4.37	5.34	5.5	11.5
Service delivery salaries	23.7	29.5	30.1	25.4	26.3
O&M -Non wage	10	14	16	13	22
Capital	7	4	5	4	6
Total expenditure	**46**	**52**	**56**	**48**	**67**
Recurrent –Wage	61%	65%	63%	65%	57%
Administrative salaries	9%	8%	10%	11%	17%
Service delivery salaries	52%	57%	54%	53%	39%
O&M -Non wage	22%	27%	29%	27%	33%
Capital	15%	8%	9%	8%	9%

50. There are large scale systemic weaknesses that exist in financial management processes and systems in local governments. These cover the entire range of budgeting, accounting, reporting, internal controls and internal audit. A summary of the key findings of the "In Depth Supervision Report" that was conducted in 2011 is at Annex "E".

51. Besides these generic issues, there are six project specific issues that need to be addressed as part of this program.

First is the risk posed by the significant increase in fund flows to these 14 Municipal LGs.

52. A simulation of estimated revenue increases for the USMID municipalities is given below. Under this scenario (which assumes that LGs will achieve the performance target for the year), average overall revenues are estimated to rise by more than 75 per cent, with average development revenues rising from about US$ 155, 657 (pre-USMID) to $1.6m. When DLI 3 is introduced (in FY 2015/16), the amounts received will expand further – by an average of a further $950,000 per Municipality, though by this time Municipal fiduciary capacity is expected to have been strengthened as a result of the impact of the first two years of the Program. Overall fiduciary risk is assessed as high and clearly such significant increases in a weak capacity environment requires that effective risk mitigation measures are put in place.

	FY 14	FY 15	FY 16	FY 17	FY 18
Arua	$1,186,113	$1,186,113	$1,932,440	$1,932,440	$1,753,869
Entebbe	$1,266,623	$1,266,623	$2,072,588	$2,072,588	$1,894,016
Fort Portal	$1,037,878	$1,037,878	$1,674,401	$1,674,401	$1,495,830
Gulu	$3,990,665	$3,990,665	$6,814,439	$6,814,439	$6,635,867
Hoima	$1,887,714	$1,887,714	$3,153,745	$3,153,745	$2,975,173
Jinja	$1,403,218	$1,403,218	$2,310,364	$2,310,364	$2,131,792
Kabale	$920,897	$920,897	$1,470,767	$1,470,767	$1,292,196
Lira	$2,025,068	$2,025,068	$3,392,843	$3,392,843	$3,214,271
Masaka	$1,446,704	$1,446,704	$2,386,061	$2,386,061	$2,207,489
Mbale	$1,496,488	$1,496,488	$2,472,723	$2,472,723	$2,294,152
Mbarara	$1,285,490	$1,285,490	$2,105,429	$2,105,429	$1,926,858
Moroto	$380,610	$380,610	$530,269	$530,269	$351,698
Soroti	$1,191,664	$1,191,664	$1,942,102	$1,942,102	$1,763,531
Tororo	$980,869	$980,869	$1,575,163	$1,575,163	$1,396,592
Total	$20,500,000	$20,500,000	$33,833,333	$33,833,333	$31,333,333
Exchange Rate	**2,600**	**2,600**	**2,600**	**2,600**	**2,600**
USH Mn.	53,300	53,300	87,967	87,967	81,467
Increase in dev spending (times)	9	9	15	15	14

The following table provides an indication of the situation regarding "outliner" Municipalities, for FY 2013/14 where USMID revenues relative to current revenues are expected to be highest and lowest.

All figures in US$	**2013/14**
- **Gulu** (Expected to receive the largest USMID allocation)	
o Total revenue with USMID	o $7,346,644
o % increase in revenues with USMID	o 119%
o Total development grants with USMID	o $5,031,962
o Increase in development grants with USMID	o 383%
- **Kabale** (Expected to receive one of the smallest USMID allocations)	
o Total revenue with USMID	o $2,897,971
o % increase in revenues with USMID	o 47%
o Total development grants with USMID	o $1,199,456
o Increase in development grants with USMID	o 331%
- **Lira** (Expected to receive the second largest USMID allocation)	
o Total revenue with USMID	o $4,333,881
o % increase in revenues with USMID	o 88%
o Total development grants with USMID	o $2,776,628
o Increase in development grants with USMID	o 269%
- **Hoima** (Expected to receive the third largest USMID allocation)	
o Total revenue with USMID	o $2,757,954
o % increase in revenues with USMID	o 217%
o Total development grants with USMID	o $2,056,033
o Increase in development grants with USMID	o 1122%

<u>Internal Audit is still at a very low level in these 14 municipal LGs.</u> The finding of the FM review that was undertaken for USMID noted that the status of internal audit within the management structure is still low; internal audit is more or less looked at as a section and not a fully flagged department, the head of internal audit does not command the respect which other HoDs do, annual audit work plans are made by the internal auditors but in some municipalities these are not costed. Only about 50% of the work plans is implemented and the reason most commonly cited is lack of funds. Funding of internal audit is controlled by managers who are the auditees. There are no Audit Committees, and internal audit is not independent. Follow up of the internal audit reports is almost nonexistent in all municipalities. The finding of the special FM review of the 14 LGs was that *"For the infrastructure project the fiduciary risk that internal audit will not mitigate the other control weaknesses is clearly very high and for this reason, internal audit in its current status and functionality cannot be relied upon to deter or discover fraud."*

<u>The budget process is still very weak and communities are largely disenfranchised during the budget formulation and approval process in these 14 municipal LGs.</u> The finding of the special review in these 14 municipal LGs was that:

- A lack of adequate capacity/competence to comprehend the technical aspects of project identification, appraisal and selection. The project identification meetings then end up more of talk shops and at the end of the day the results of project investment meetings at the grassroots level is generally a wish list of projects that the community wishes to see implemented. In practice such a list is not realistically feasible for the municipality to implement Due to inadequate financial resources.
- The failure by the municipalities to implement projects recommended by the communities during previous years disenfranchises the community into taking a passive role since they do not see the benefits of attending the project identification meetings or the annual budget conference.
- At the municipal level, participation is in the form of a budget conference comprising very many people [up to 300 in some municipalities] which is attended by a cross-section of stakeholders from the entire municipality. The sheer numbers and the fact that the meeting is a one day affair means no much concentration on the budget can be made and as a matter of fact, most participants attend the meeting more so to be paid allowances.

<u>There are major staffing shortfalls across the board in the Central Government Ministries implementing this program and also on Local Governments.</u>

- Around 50% of executive level positions are vacant in the Ministry that has implementation responsibility for this Program – MoLHUD. The details are at Annex "F".
- In the Ministry of Local Government that has administrative responsibility for Local Governments, the vacancy level at the executive level is almost 30%. The details are also at Annex "F".
- The position is worse in Local Governments. On average only 55% of staff positions are filled in the 14 municipal LGs that are the beneficiaries of this Program. In some municipal LGs such as Moroto municipality only 32% of positions are filled, while in Mbarara municipality less than 40% are filled.
- Of the Finance and Planning function, only 61% of such positions are filled in these 14 municipal LGs. In some poorly performing LGs – from a financial management perspective – such as Fort Portal municipal LG – the vacancy rate is 62%.
- The category with the highest number of vacancies is works and technical services. Only 47% of these positions are filled in these municipal LGs. This is the team that has the most direct relevance to the USMID Program. The comment of the special FM review team regarding this was that: *"It is noteworthy that the department with the highest vacancy rates is works and technical services. This is the department charged with the responsibility of urban planning, development and maintenance of urban infrastructure".*

Municipality	Departments and percentage of approved positions that are filled								
	T&Ad	Fin&P	P H	W&TS	EP&M	IA	Ed&S	CBS	Overall
Arua	45	61	71	59	50	50	33	50	57
Entebe	79	84	75	52	50	75	62	54	68
Gulu	87	87	69	87	100	100	90	86	81
Hoima	63	82	100	71	33	75	50	100	68
Jinja	79	83	79	56	65	100	86	58	72
Kabale	36	64	61	15	75	50	43	64	47
Lira	NA	NA	92	NA	60	100	NA	NA	NA
Masaka	68	67	97	52	50	83	50	67	73
Mbale	77	63	74	27	33	83	56	83	62
Mbarara	49	63	36	43	33	75	33	44	39
Moroto	37	53	24	23	25	33	30	13	32
Fort Portal	44	38	61	48	50	83	56	56	60
Soroti	67	48	10	60	50	75	56	50	63
Tororo	42	54	52	62	29	75	38	25	52
Average	55	61	64	47	50	76	49	54	55

Key: ***TC&Ad*** *= Town Clerk and Administration;* ***PH*** *= Public Health;* ***W&TS*** *= Works and Technical Services;* ***IA*** *= Internal Audit;* ***EP&M*** *= Environment, Production and Marketing;* ***Fin &P*** *= Finance and Planning;* ***Ed&S*** *= Education and Sports;* ***CBS*** *= Community Based Services.*

Audit reports raise ongoing concerns regarding the financial performance of these LGs. While there has been an increase in the number of LGAs that received an unqualified audit opinion in FY 11, there was a sharp deterioration in the performance of two LGAs – Fort Portal and Mbarara. They both received a Disclaimer opinion for the first time and the Auditor General's report provides details of the systemic mismanagement of public resources that has taken place at these two LGAs. As part of USMID there will be need to address the weaknesses at these two municipal councils as well as in the other seven that received a qualified audit opinion.

		Type Of Opinion 2008/09	Type Of Opinion 2009/10	Type Of Opinion 2010/11
1	Arua MC	Qualified Opinion	Qualified Opinion	Qualified Opinion
2	Entebbe MC	Qualified Opinion	Qualified Opinion	Unqualified Opinion
3	Fort Portal MC	Qualified Opinion	Qualified Opinion	Disclaimer
4	Gulu MC	Qualified Opinion	Qualified Opinion	Qualified Opinion
5	Hoima TC	Qualified Opinion	Qualified Opinion	Qualified Opinion
6	Jinja Municipal	Qualified Opinion	Qualified Opinion	Qualified Opinion
7	Kabale MC	Qualified Opinion	Unqualified Opinion	Qualified Opinion
8	Lira MC	Qualified Opinion	Qualified Opinion	Qualified Opinion
9	Masaka MC	Qualified Opinion	Qualified Opinion	Unqualified Opinion
10	Mbale MC	Unqualified Opinion	Disclaimer Opinion	Unqualified Opinion
11	Mbarara Mc	Qualified Opinion	Qualified Opinion	Disclaimer
12	Moroto MC	Qualified Opinion	Qualified Opinion	Unqualified Opinion
13	Soroti MC	Qualified Opinion	Unqualified Opinion	Unqualified Opinion
14	Tororo MC	Qualified Opinion	Qualified Opinion	Qualified Opinion

There is need to make the National Assessment (NA) more timely and effective than it is at present. As noted in an earlier section of this note, there has been some deterioration in the timeliness and impact of the NAs. Now that almost all LGs are meeting the minimum conditions for the last two years, there is need to work with Government to raise the bar and make the assessment targets a bit more challenging than they are. There is also need to review the Performance Measures and to ensure that there is adequate funding linked to the assessment process to ensure that it does provide adequate incentives to the participating municipal LGs which it does not seem to do at present.

Municipal Local Government	Year	Minimum condition	Performance measure	Overall
Arua Municipality	2009	Met	Reward	Reward
	2008	Met	Reward	Reward
Entebbe Municipality	2009	Met	Reward	Reward
	2008	Met	Reward	Reward
Fort Portal Municipality	2009	Met	Reward	Reward
	2008	Met	Reward	Reward
Gulu Municipality	2009	Met	Static	Static
	2008	Not Met	Penalty	Penalty
Hoima Municipality				
Jinja Municipality	2009	Not Met	Reward	Penalty
	2008	Met	Reward	Reward
Kabale Municipality	2009	Met	Reward	Reward
	2008	Met	Static	Static
Lira Municipality	2009	Met	Static	Static
	2008	Met	Reward	Reward
Masaka Municipality	2009	Not Met	Reward	Penalty
	2008	Met	Reward	Reward
Mbale Municipality	2009	Met	Reward	Reward
	2008	Met	Reward	Reward
Mbarara Municipality	2009	Met	Reward	Reward
	2008	Met	Reward	Reward
Moroto Municipality	2009	Met	Static	Static
	2008	Met	Reward	Reward
Soroti Municipality	2009	Not Met	Static	Penalty
	2008	Met	Penalty	Penalty
Tororo Municipality	2009	Met	Static	Static
	2008	Met	Reward	Reward

B. Procurement

53. ***Effectiveness and Quality of Procurement Planning***. Both municipal LGs and MoLHUD prepare procurement plans annually as part of the budgeting cycle. The plans are linked to the available budget and generally based on valid end-user needs as reflected in the budgets. The plans comply with procurement rules and arrangements with respect to procurement methods, scheduling and bidding times. Adherence to plans has improved following increases PPDA Audit especially in strictly procuring items

in the plan and adhering to the planned procurement methods. Overall procurement planning has progressively improved in the municipal LGs and MoLHUD

54. However the plans inherit the weaknesses identified in budgeting of inadequate costing of inputs which results in variances between cost estimates and the actual prices with the latter usually higher. There is also significant fragmentation of contracts usually based on program, funding source or beneficiary department, which increases the administrative cost of procurement and denies the Government the benefits of economies of scale. Even within departments contracts may be split e.g. by road name even if the scope of work is similar. This is worse at the MoLHUD where procurements are also split by quarter with the same items being procured every quarter as a new contract / procurement process. While for some municipalities and at MoLHUD, this splitting was as a result of insufficient knowledge on proper packaging, some municipalities deliberately keep the contracts small to ensure that they attract contractors within the municipality and "*spread the contracts across multiple providers*." The municipalities and MoLHUD will therefore require training about the benefits of proper packaging of contracts as well as on appropriate packaging of contracts in the procurement plan.

55. The plan format in use is also not effective for proper planning and monitoring because it does not include the scheduling of the procurement and therefore does not guide the entities as to when the goods or services are likely to be delivered. It simply states the quarter of the financial year during which the funds are likely to be spent without specifying when the procurement will be done. It also does not allow for systematic monitoring of progress as it does not provide for indicating the actual progress of procurement against the plan. MoFPED and PPDA have observed weaknesses in the plan and have developed and issued a new format that addresses these weaknesses effective FY 13. Under the program, the municipal LGs and MoLHUD shall adopt the revised Government of Uganda procurement plan format which addresses the identified weaknesses.

56. In order to ensure preparation of proper procurement plans, preparation of a plan aligned with the work plan and in accordance with PPDA guidelines and shall be one of the minimum conditions for access to the infrastructure grant. Adherence to the plan shall be one performance measures in the annual assessment to contribute to determining the performance based grant allocation.

i. Timeliness in the delivery of services to end-users

57. The procurement and contract management process is generally not considered timely with approximately 6 months lost in a financial year due to delayed procurement and contract performance. 3 to 4 months are lost due to late commencement of procurement and 3 months in delayed contract performance especially for civil works contracts.

58. Most of the municipal LGs commence their procurements in second quarter of the financial year from September to December with the majority commencing in October meaning that the first 3 months of the financial year when procurement should have commenced are lost. This is partly due to the practice of waiting for release of funds before the procurement process can commence arising from uncertainty over availability of funds and the delayed initiation of the process by the beneficiary departments. The 1 to 2 months delay in release of funds every quarter from the Ministry of Finance further exacerbates this delay.

59. The procurement process is itself completed in a timely manner once it has commenced, with an average procurement processing time of 90 days for NCB contracts from publishing of the notices to contract signature. This is considered efficient even compared to the 132 days maximum indicative timeframe established by PPDA and the actual average of 266 days taken by CG entities. This therefore leaves only 4 to 6 months within which contracts can be implemented given the risk that any unutilized

funds at the end of the financial year have to revert to the Ministry of Finance except for own source revenue.

60. Weak contract management in most of the municipalities results in delayed contract performance resulting in further delays. The Auditor General's annual audit reports reported several cases of delays in civil works contracts with an average delay of over 6 months beyond the contractual completion date. The assessment also found that an average variance between the contractual completion date and the actual completion date of 2.5 months as shown below based on data from 8 participating MCs:

Name of MC	**Average variation between contractual completion and actual completion dates (in days)**
Entebbe	90
Gulu	90
Kabale	36
Mbale	45
Mbarara	69
Moroto	84
Tororo	97
Average	73

61. The weak contract management is attributable in part to the lack of adequate technical staff to supervise the works and manage contracts since most of the Engineering departments in Municipal LGs are inadequately staffed with only 47% of the approved positions filled across the departments. This also leads to delays in certification of works and in turn delays in payment of contractors. Despite the lack of adequate staff, Municipal LGs are hesitant to recruit consultants to supervise the works due to inadequate funding given that the funding for the works is itself inadequate.

62. This will be mitigated under the program by the increased predictability of funds availability which will allow proper planning and early commencement of the procurement process. The substantial increase in funding from the municipal LDG and the provision of funds to support supervision under the Institutional Support grant will also ensure that the Municipal LGs have resources to draw on to supervise works. These measures will be complemented by (i) requiring the municipal LG to have a Municipal Engineer as a minimum condition (ii) inclusion of several measures to improve works supervision as part of the performance measures under the annual assessment and (iii) DLI 3 and related performance indicators requiring MCs to have delivered local infrastructure as per their annual action plans by utilizing Program funds.

ii. ***Cost-effectiveness***

63. Whereas the system is designed to achieve cost effectiveness, non-compliance compromises the achievement of cost effectiveness. To begin with, the unit costs used for budgeting are not updated and can therefore not be relied on in challenging the prices that emerge from the competitive bidding. The inadequate advertising together with alteration of evaluation criteria and fragmentation of contracts contribute to low bidder participation which limits competition and competitive pricing. In fact in many cases the bid prices will be very close to the budgets. Even where prices achieved are reasonable, cost effectiveness remains susceptible during contract management which is generally weak. Auditor General's reports highlight cases of contractors paid without completing works or even with substandard

works. Selecting contractors without adequate attention to their qualifications exposes Municipal LGs to the risk of hiring unqualified contractors with inadequate capabilities to complete required works.

64. To address these risks, (i)a consultant has been hired to prepare unit costs for the required infrastructure which shall thereafter be updated annually by the Municipal LGs, (ii) The Auditor General shall conduct annual value for money audits in the 14 participating Municipal LGs to establish the reasonableness of the cost of the infrastructure and whether it has been completed as per specification and the results will feed into DLI 3 which measures implementation of infrastructure. These will also be supported by other measures below to improve compliance.

iii. Competitiveness of Procurement Processes

65. Whereas the majority of the procurement in the Municipal LGs is conducted through open competitive bidding with bidding opportunities advertised in newspapers of wide national circulation, the competitiveness of procurement is constrained by (i) the inappropriate mode of advertising which is geared towards meeting the regulatory requirement rather than attracting bidder interest, (ii) the low bidder participation with 1 to 3 bids received for civil works contracts, (iii) the departure from applying the pre-disclosed evaluation criteria during the evaluation which limits bidder confidence and further worsens bidder participation and (iv) the limited effectiveness of the complaints system due to the perceived and real fear of retaliation through denied future opportunities. This limits the competitiveness of procurement and in turn compromises the cost effectiveness of procurement in ensuring value for money in service delivery.

66. The bulk of procurement in the Municipal LGs is conducted through competitive bidding. The usage of the different procurement methods by nine municipalities for the financial year 2010 / 11 is shown in the figure below:

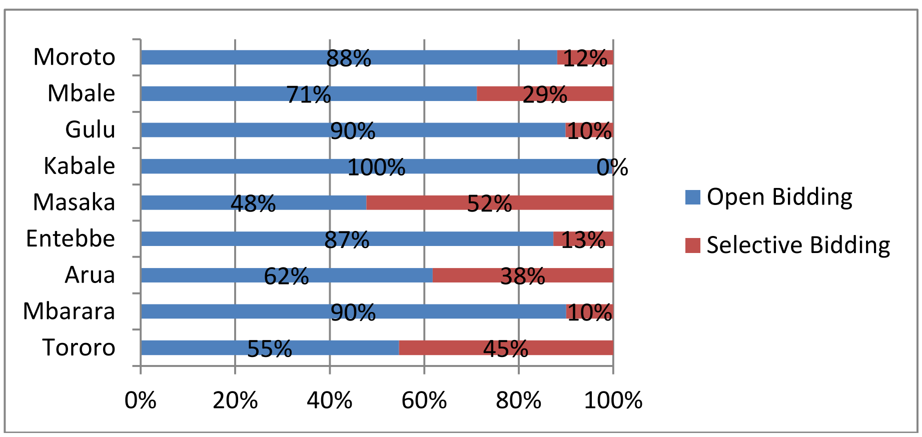
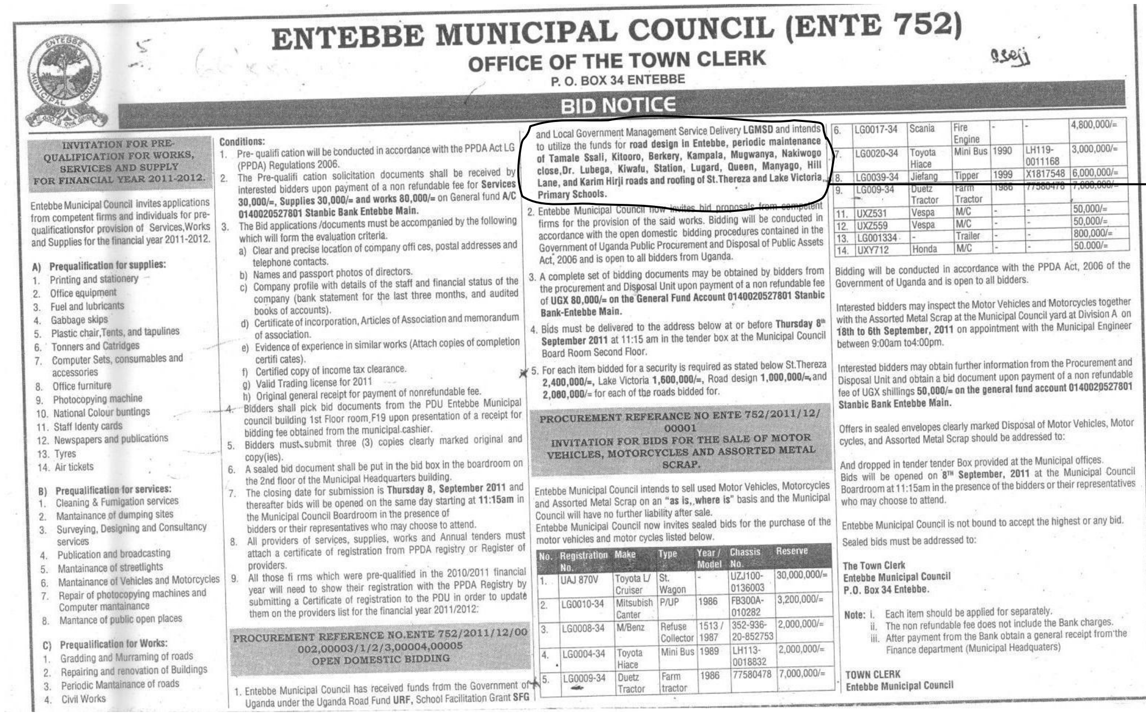


Figure 1: % Usage of the different procurement methods by value in Municipal LGs FY 10/11

67. In line with the requirement of the PPDA Act to publish notices under competitive bidding, contracts procured through NCB are usually advertised in a newspaper of wide national circulation and on the MC notice boards. Only isolated cases were found in some Municipalities e.g. Lira where the requirement to advertise is not fully adhered to on grounds of insufficient funds to publish notices. However the manner of advertising is not effective in attracting bidder interest but rather appears to mainly focus on meeting the regulatory requirement to advertise under NCB. This advert includes the list of all contracts to be procured by NCB for the year making them too crowded to attract the readers' interest given the size and content of the notice. As shown in figure 1 below, the details in the advert on the procurements being procured are insufficient to guide bidders on the needs of the agency or the

required scope of work. They simply specify the contract type e.g. contract for road rehabilitation without specifying the size or distance of the road to be covered or other description of the scope of the procurement. The adverts don't even refer to a website where more detailed information may be obtained. This insufficient detail limits bidder interest and it is likely that only bidders with prior knowledge of the procurement will participate. This is indeed confirmed by the little interest in purchase of the bidding document with 1 to 3 bidders purchasing the bidding document and all of those purchasing the document submitting bids.



ENTEBBE MUNICIPAL COUNCIL (ENTE 752)

OFFICE OF THE TOWN CLERK

P. O. BOX 34 ENTEBBE

BID NOTICE

INVITATION FOR PRE-QUALIFICATION FOR WORKS, SERVICES AND SUPPLY FOR FINANCIAL YEAR 2011-2012.

Entebbe Municipal Council invites applications from competent firms and individuals for pre-qualificationsfor provision of Services,Works and Supplies for the financial year 2011-2012.

A) Prequalification for supplies:
1. Printing and stationery
2. Office equipment
3. Fuel and lubricants
4. Gabbage skips
5. Plastic chair,Tents, and tapulines
6. Tonners and Catridges
7. Computer Sets, consumables and accessories
8. Office furniture
9. Photocopying machine
10. National Colour buntings
11. Staff Identy cards
12. Newspapers and publications
13. Tyres
14. Air tickets

B) Prequalification for services:
1. Cleaning & Fumigation services
2. Mantainance of dumping sites
3. Surveying, Designing and Consultancy services
4. Publication and broadcasting
5. Mantainance of streetlights
6. Mantainance of Vehicles and Motorcycles
7. Repair of photocopying machines and Computer mantainance
8. Mantance of public open places

C) Prequalification for Works:
1. Gradding and Murraming of roads
2. Repairing and renovation of Buildings
3. Periodic Mantainance of roads
4. Civil Works

Conditions:
1. Pre- qualifi cation will be conducted in accordance with the PPDA Act LG (PPDA) Regulations 2006.
2. The Pre-qualifi cation solicitation documents shall be received by interested bidders upon payment of a non refundable fee for **Services 30,000/=, Supplies 30,000/= and works 80,000/=** on General fund **A/C 0140020527801 Stanbic Bank Entebbe Main.**
3. The Bid applications /documents must be accompanied by the following which will form the evaluation criteria.
   a) Clear and precise location of company offi ces, postal addresses and telephone contacts.
   b) Names and passport photos of directors.
   c) Company profile with details of the staff and financial status of the company (bank statement for the last three months, and audited books of accounts).
   d) Certificate of incorporation, Articles of Association and memorandum of association.
   e) Evidence of experience in similar works (Attach copies of completion certifi cates).
   f) Certified copy of income tax clearance.
   g) Valid Trading license for 2011
   h) Original general receipt for payment of nonrefundable fee.
4. Bidders shall pick bid documents from the PDU Entebbe Municipal council building 1st Floor room,F19 upon presentation of a receipt for bidding fee obtained from the municipal cashier.
5. Bidders must submit three (3) copies clearly marked original and copy(ies).
6. A sealed bid document shall be put in the bid box in the boardroom on the 2nd floor of the Municipal Headquarters building.
7. The closing date for submission is **Thursday 8, September 2011** and thereafter bids will be opened on the same day starting at **11:15am** in the Municipal Council Boardroom in the presence of bidders or their representatives who may choose to attend.
8. All providers of services, supplies, works and Annual tenders must attach a certificate of registration from PPDA registry or Register of providers.
9. All those fi rms which were pre-qualified in the 2010/2011 financial year will need to show their registration with the PPDA Registry by submitting a Certificate of registration to the PDU in order to update them on the providers list for the financial year 2011/2012:

PROCUREMENT REFERENCE NO.ENTE 752/2011/12/00 002,00003/1/2/3,00004,00005 OPEN DOMESTIC BIDDING

1. Entebbe Municipal Council has received funds from the Government of Uganda under the Uganda Road Fund **URF**, School Facilitation Grant **SFG** and Local Government Management Service Delivery **LGMSD** and intends to utilize the funds for **road design in Entebbe, periodic maintenance of Tamale Ssali, Kitooro, Berkery, Kampala, Mugwanya, Nakiwogo close,Dr. Lubega, Kiwafu, Station, Lugard, Queen, Manyago, Hill Lane, and Karim Hirji roads and roofing of St.Thereza and Lake Victoria Primary Schools.**
2. Entebbe Municipal Council now invites bid proposals from competent firms for the provision of the said works. Bidding will be conducted in accordance with the open domestic bidding procedures contained in the Government of Uganda Public Procurement and Disposal of Public Assets Act, 2006 and is open to all bidders from Uganda.
3. A complete set of bidding documents may be obtained by bidders from the procurement and Disposal Unit upon payment of a non refundable fee of **UGX 80,000/= on the General Fund Account 0140020527801 Stanbic Bank-Entebbe Main.**
4. Bids must be delivered to the address below at or before **Thursday 8th September 2011** at 11:15 am in the tender box at the Municipal Council Board Room Second Floor.
5. For each item bidded for a security is required as stated below St.Thereza **2,400,000/=**, Lake Victoria **1,600,000/=**, Road design **1,000,000/=** and **2,000,000/=** for each of the roads bidded for.

PROCUREMENT REFERANCE NO ENTE 752/2011/12/00001 INVITATION FOR BIDS FOR THE SALE OF MOTOR VEHICLES, MOTORCYCLES AND ASSORTED METAL SCRAP.

Entebbe Municipal Council intends to sell used Motor Vehicles, Motorcycles and Assorted Metal Scrap on an **"as is,.where is"** basis and the Municipal Council will have no further liability after sale.
Entebbe Municipal Council now invites sealed bids for the purchase of the motor vehicles and motor cycles listed below.

No.	Registration No.	Make	Type	Year / Model	Chassis No.	Reserve
1.	UAJ 870V	Toyota L/ Cruiser	St. Wagon	-	UZJ100-0136003	30,000,000/=
2.	LG0010-34	Mitsubish Canter	P/UP	1986	FB300A-010282	3,200,000/=
3.	LG0008-34	M/Benz	Refuse Collector	1513 / 1987	352-936-20-852753	2,000,000/=
4.	LG0004-34	Toyota Hiace	Mini Bus	1989	LH113-0018832	2,000,000/=
5.	LG0009-34	Duetz Tractor	Farm tractor	1986	77580478	7,000,000/=
6.	LG0017-34	Scania	Fire Engine	-	-	4,800,000/=
7.	LG0020-34	Toyota Hiace	Mini Bus	1990	LH119-0011168	3,000,000/=
8.	LG0039-34	Jiefang	Tipper	1999	X1817548	6,000,000/=
9.	LG009-34	Duetz Tractor	Farm Tractor	1986	77580478	7,000,000/=
11.	UXZ531	Vespa	M/C	-	-	50,000/=
12.	UXZ559	Vespa	M/C	-	-	50,000/=
13.	LG001334	-	Trailer	-	-	800,000/=
14.	UXY712	Honda	M/C	-	-	50.000/=

Bidding will be conducted in accordance with the PPDA Act, 2006 of the Government of Uganda and is open to all bidders.

Interested bidders may inspect the Motor Vehicles and Motorcycles together with the Assorted Metal Scrap at the Municipal Council yard at Division A on **18th to 6th September, 2011** on appointment with the Municipal Engineer between 9:00am to4:00pm.

Interested bidders may obtain further information from the Procurement and Disposal Unit and obtain a bid document upon payment of a non refundable fee of UGX shillings **50,000/= on the general fund account 0140020527801 Stanbic Bank Entebbe Main.**

Offers in sealed envelopes clearly marked Disposal of Motor Vehicles, Motor cycles, and Assorted Metal Scrap should be addressed to:

And dropped in tender tender Box provided at the Municipal offices.
Bids will be opened on **8TH September, 2011** at the Municipal Council Boardroom at 11:15am in the presence of the bidders or their representatives who may choose to attend.

Entebbe Municipal Council is not bound to accept the highest or any bid.

Sealed bids must be addressed to:

The Town Clerk
Entebbe Municipal Council
P.O. Box 34 Entebbe.

Note: i. Each item should be applied for separately.
ii. The non refundable fee does not include the Bank charges.
iii. After payment from the Bank obtain a general receipt from the Finance department (Municipal Headquaters)

TOWN CLERK
Entebbe Municipal Council

The list of 17 NCB contracts

Figure 2 Sample of the advert for NCB Contracts

68. MLHUD has not conducted procurement under open bidding but generally the central government (CG) entities adhere to the advertising requirements and provide clear adverts. Bidder participation at MLHUD is adequate with a minimum of 3 quotations compared even where selective bidding or quotations procurement is carried out.

69. Bidder participation in the municipal LGs is low with many civil works contracts attracting little bidder participation. Many of the contracts for roads or buildings attract only 1 to 3 bidders and a review of the procurements over 2 years shows that the same contractors bid for these contracts each year. Considering that these municipalities are secondary cities where there is more private sector activity than the districts and with more potential for revenue, the bidder participation is very low. The assessment did not observe any deliberate actions by the municipal LG's to attract more bidder participation or worse still any concern among the municipal LGs that this is an issue. Below is a summary of the average number of bids received under open and restricted domestic bidding.

Table 2 Bidder participation in MCs for FY 10/11

Method	Average number of bids received for each contract[19]								
	Arua	Entebbe	Gulu	Kabale	Masaka	Mbale	Mbarara	Tororo	Moroto
Open bidding	2	1	3	2	1	1	5	4	4
Selective	2	1	2	2	1	2	3	3	1

[19] Contracts Registers submitted for the FY 10/11

bidding									

70. This low participation partly attributed to the nature of adverts as explained above and some cases of non-transparent evaluation as described below under compliance. Discussions with some contractors suggest that the low participation is also driven by the perception by bidders that they will not be treated fairly if they bid and that the municipalities already have preselected providers by the time the notices are published. Fragmentation of contracts could also explain the low bidder participation with the packaging of contracts limiting the participation of the bigger contractors

71. Low bidder participation is assessed as a significant risk to the achievement of project objectives as it is an indication of limited competition which usually results in higher than market prices and increased project costs.

72. Low bidder participation will be addressed through business outreach programs in partnership with PPDA, the local association of Contractors (UNABCEC), Uganda Investment Authority (UIA), and MLHUD. This will be complemented with improved detail of notices publishing of specific procurement notices in the newspapers of wide national circulation and on the PPDA Government tender portal. Given the current limited use of the tender portal, the program will support PPDA in stimulating more private sector and bidder interest in the PPDA portal, the program shall support publishing in the newspapers of all notices that are published in the PPDA tender portal fortnightly for an initial 3 months period. Thereafter it is expected that municipalities and other Local Governments will increasingly publish more through this portal and be able to attract improved bidders' interest.

iv. Implementing Agencies' Compliance with applicable rules

73. Overall, legislative framework is well established with on clear, mandatory and enforceable rules and is therefore conducive for achievement of value for money in procurement However non-adherence to the framework at the different stages as elaborated below restricts its effectiveness in achieving this goal. PPDA's review of 1000 contracts across government in 2007 showed that only 30% of the contracts by number adhered fully to the law. The compliance issues at the different stages is explained below.

74. **Preparation of documents and management of the bidding process**. MLHUD mainly procures through shopping and therefore does not have experience in preparing bidding documents for competitive bidding. At municipal level, bidding documents are prepared by the Municipalities in the majority of procurements under competitive bidding with the exception of a few cases observed where a Request for Quotations rather than a detailed bidding document was used under NCB. The preparation of bidding documents is fairly adequate to ensure response by the bidders even though the quality is not consistent across the municipalities. In the case of civil works, the bid data sheet and conditions of contract are usually completed although a few clauses in each of them are not completed. The bidding documents reviewed all included bills of quantities for the works in sufficient detail to allow proper bidder response. In some municipalities however, the scope of works (Masaka) or the specifications (Entebbe) were not included in the bidding documents for all contracts reviewed. The Bidding documents generally provide for equitable conditions of contract although it was observed that some clauses in the special conditions are not completed and the Contracts Committees do not flag this in their own review of these documents.

75. Whereas the SBDs provide for the inclusion of clear qualification requirements, the most common omission in the bidding documents reviewed was the absence of qualification requirements in the bidding documents. In the few cases where some qualification is specified, it is inadequate in comparison to the nature of works being procured. This creates a risk that the contractors awarded contracts may not sufficiently qualified to perform the contracts.

76. Overall, the above omissions notwithstanding, the bidding documents prepared are sufficient to elicit a satisfactory bidder response. The above omissions need to be addressed to ensure that the scope of work is clear, specifications are included and that clear qualification requirements are specified in the bidding documents. This will be addressed mainly through training of the procurement and engineering staff at the inception of the project as well as provision of on-job training to these staff. The Contracts Committees need to be sensitized on the aspects to consider in reviewing and approving these documents.

77. ***Receipt and Opening of Bids***. The bidding process is managed by the PDU and all bids received are recorded at both the municipal LGs and MLHUD. The bids received are kept in the PDU office and other sensitive documents like bid/performance securities and financial proposals. The assessment finds that the arrangements in place for receipt of bids are adequate. Bids are usually opened 1 hour after the deadline for bid submission although some cases were observed at municipal LGs where bid opening was conducted over a month after the bid submission deadline and the date specified in the bidding document[20]. Opening of bids is public except in the cases where the bids are not opened as scheduled. Under the program, this will be addressed through training and adherence assessed in the annual procurement audits.

78. ***Evaluation and contract award*****.** The bid evaluation in many municipalities does not fully adhere to the evaluation criteria outlined in the bidding document as observed from the assessment and the PPDA Audit reports. New criteria are introduced during the evaluation beyond what was included in the bidding document and some of the criteria in the bidding document is disregarded during evaluation. The assessment found several cases of post qualification criteria in the bidding document disregarded in their entirety during the evaluation. This results in the unfair disqualification of some bidders or award to bidders who are not meeting the qualification requirements.

79. The assessment also observed cases of alteration of evaluation methodologies during the evaluation. The bidding documents require evaluation using "Technical Compliance Selection" which is defined as award of contract to the lowest evaluated responsive bidder that is qualified to perform the contract. However at evaluation, a "Least Cost Selection methodology" using merit point evaluation is adopted in determining whether or not the bidder is responsive and qualified, and the contract awarded to the bidder who meets the minimum qualifying mark that has the lowest price. This minimum mark and breakdown of scores are arbitrarily established during the evaluation. The practices differ considerably across municipalities. In Entebbe, the evaluation methodology is generally adhered to but the post qualification criteria in the bidding document are not evaluated. In Masaka, the evaluation methodology is altered at evaluation to the "Least Cost Methodology" and new criteria are introduced during evaluation.

80. Several cases were also observed of bidders declared non-responsive at the preliminary evaluation on grounds of not submitting documents establishing that the bidder is legally established and pays the due taxes with this being the most prevalent reason for declaring bidders non-responsive. Similar albeit less prevalent cases of non adherence to criteria were observed at the MLHUD where new criteria are introduced during the evaluation of proposals especially where such criteria was omitted in preparing solicitation documents.

81. The non adherence to pre-disclosed evaluation criteria poses a high risk to procurement under the project as it results in unfair disqualification of bidders with potentially more economic bids and creates opportunities for fraud and corruption. It discourages bidder participation as bidders do not trust that they will be treated fairly.

82. In order to ensure adherence to disclosed criteria, the annual procurement audits shall assess the adherence to disclosed criteria in evaluation of bids on a sample of contracts. Adherence to the criteria for

[20] PPDA Audit of Masaka for FY 2009

all contracts sampled for procurement audit shall be included as one of the performance measures in the annual assessment which contribute to determining the performance based grant allocation. This will be complemented by training for the Contracts Committees about how to assess adherence to evaluation criteria as part of their review of evaluation reports.

83. ***Record keeping*** Procurement files in the MCs are generally incomplete with the number of contracts with complete records in the financial year 2010/11 ranging from 40% to 60% by value[21] as shown in below:

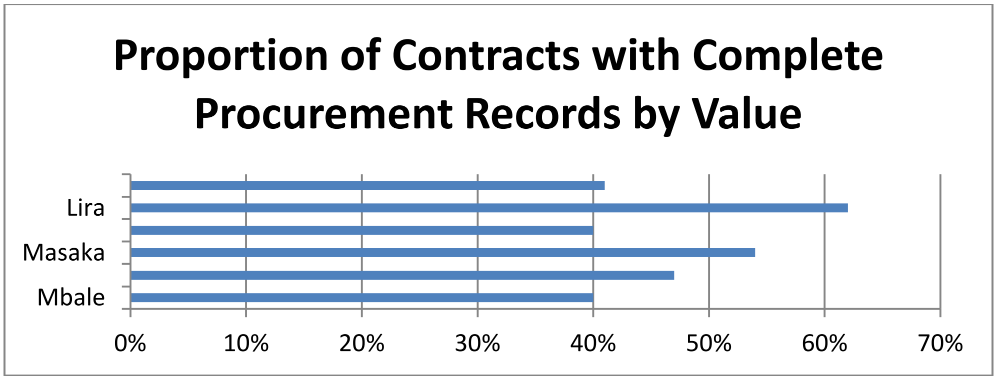


Figure 3 Completeness of Procurement Records in MCs

84. The missing documents vary from contract to contract with some cases observed where bidding documents; contracts; and / or bids evaluation reports were missing from the files. The most frequently missing document is the contract management plan which explains the weakness at contract management. At MoLHUD, the records are generally complete with the only weakness being that the documents are not filed in a chronological order which makes it difficult to locate specific documents within the file.

85. Completeness of records shall be assessed annually during the procurement audit based on an agreed sample of contracts. It shall also be one of the performance measures in the annual assessment to contribute to determining the performance based grant allocation. A file completeness checklist prepared by PPDA shall be used to guide the PDUs in filing.

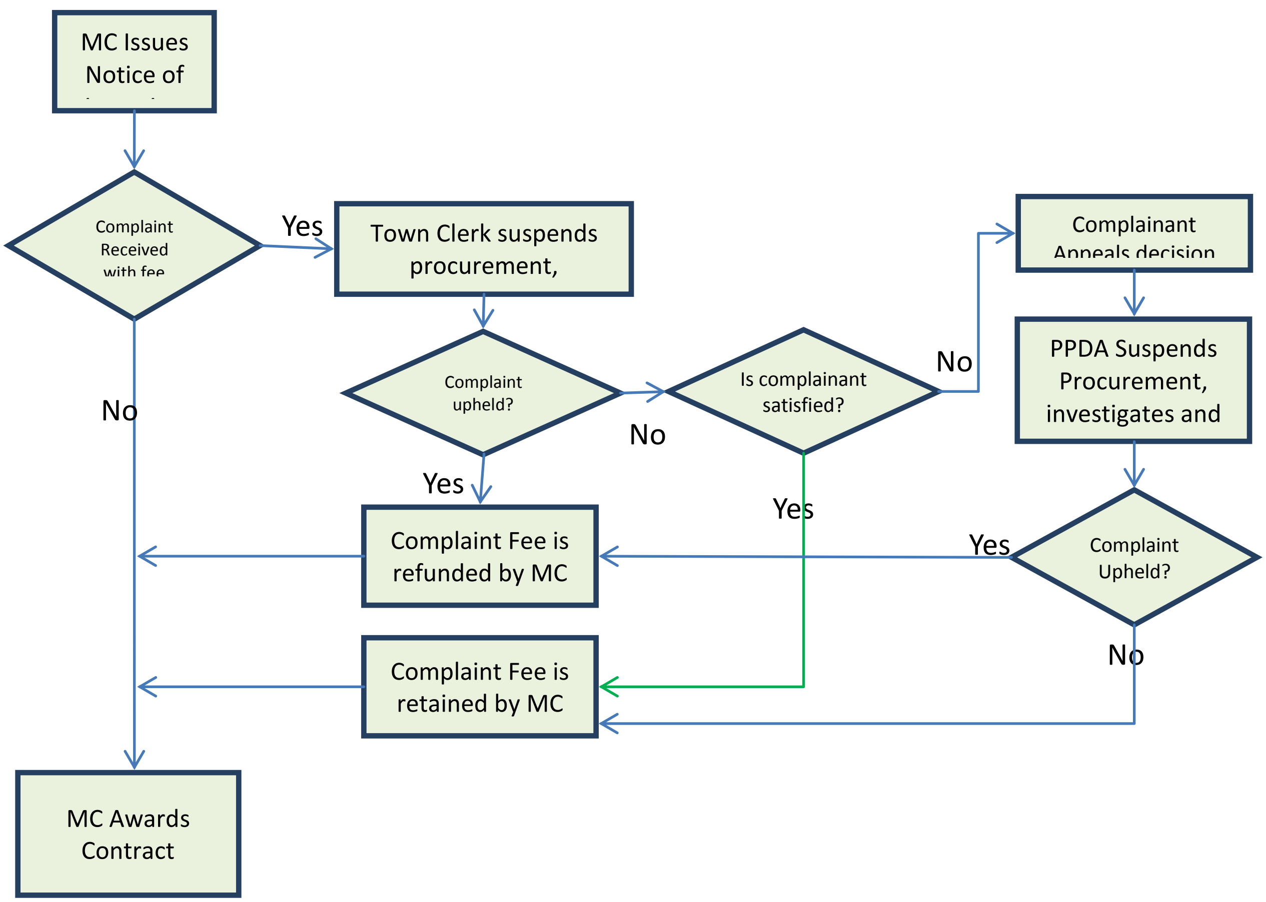
86. In order to address overall compliance in procurement, compliance shall be the main performance measure in the annual assessment under procurement in determining the performance based grant allocation. This shall assess the proportion of sampled contracts that fully adhere to the law and regulations with regard to (i) adherence to procurement plans (ii) completes of procurement records, (iii) appropriateness of procurement method, (iv) compliance with the rules under the different methods, (vi) evaluation in accordance with pre-disclosed criteria and (v) performance and completion of the contract in accordance with the conditions of contract.

v. Effectiveness of Handling of complaints

87. Under the current law, the complaints submitted are addressed at 2 levels, i.e. the first level of review by the Ministry or Municipality itself specifically the Town Clerk and if a bidder is dissatisfied with the response, the next level of review is the PPDA. The current process is illustrated below. The amended law introduces a third level of appeal to an Appeals Tribunal in case the bidder is dissatisfied with the PPDA decision or feels that the PPDA could have a conflict and would not give them a fair hearing.

[21] Procurement Performance Measurement System 2010/11 report

88. The complaints system is considered to be fair and there have been cases upheld or rejected at both levels of appeal. However the usage at municipal level is fairly limited especially at the 2nd level of appeal with a perceived and real fear among bidders that complaining about a procurement process will compromise their opportunities in future procurements. For example for FY 09/10, PPDA received 33 complaints of which 7 (20%) were on LG contracts while in FY 10/11, PPDA received 34 complaints of which 10 (30%) were from LGs. These complaints are generally handled within the 21 working days as required by the law. This is however not surprising given that at municipal level only a few bids are received so the scope for complaints is limited. No data was available on the complaints received and dealt with at the 1st level of appeal given the absence of complaints registers in municipal LGs. The absence of a complaints register at entity level both and LG and CG makes it difficult to determine authoritatively whether complaints are properly handled in a fair and timely manner.



89. **Procurement Audit**. PPDA is responsible for undertaking procurement audits of all government entities on an annual basis. PPDA procurement audits cover both the review of the procurement institutional set up and detailed review of contracts. Where the procurement audits have been conducted, they have been notably effective in driving performance improvements in the municipal LG's, with many of the municipal LGs putting in place measures to address the issues raised by the procurement audits. The assessment specifically observed improvements in procurement planning and adherence to these plans, some improvements in record keeping and less interference in the role of the Procurement Units in municipal LGs where the audits were conducted. There is also evidence of disciplinary action following the audits with some staff interdicted following the audit.

90. However, the PPDA procurement audits are limited with 7 of the 14 participating municipalities audited only once since the LG procurement law was established in 2006. Similarly MoLHUD has only been audited twice in the last 5 years. The procurement audits cycle is also long with the official reports released almost 1 year after the procurement audit is conducted. The limited coverage is largely attributable to the limited funding available to PPDA to either hire more staff or consultants to enable them to cover more entities more frequently. Due to the lack of staff, PPDA hires consultants to conduct audits of both LG and CG entities. Overall, the audit coverage has been increasing progressively since 2004 from covering 5 entities to 70 in FY 11.

91. In order to mitigate this, PPDA will be supported under the program to conduct annual audits of procurement in all participating municipal LGs. PPDA will sign a memorandum of understanding with MLHUD to ensure that these Audits are completed in a timely manner... These procurement audits shall also provide data on the different indicators for the project and the annual assessment of MCs for determining the performance based grant allocation.

vi. ***Procurement and Contract Management Capacity***

92. The Procurement Unit at municipal level is comprised of at least a senior procurement officer and a procurement officer. With the exception of Hoima, the other 13 municipal LGs had a functional PDU and CC. Hoima attained an MC status in 2010 and is still in the process of setting up administrative systems and structures. The procurement function of the municipal LGs is currently implemented by the district officials. The head of the PDU reports to the Accounting Officer who is the Town Clerk.

93. The minimum qualification for a Senior Procurement Officer is a Bachelor's degree in a relevant field and at least 3 years of professional experience while no minimum professional experience is required for a Procurement Officer. Most of the staff have been oriented on the procurement and received basic introductory training on procurement from the PPDA. Therefore, they have the basic knowledge and skills on how to conduct procurement. However, most of the staff have not received in-depth training in the preparation of biding documents, evaluation of bids and preparation of contracts, which explains the gaps described above at these stages. The USMID program will increase the infrastructure investments significantly and will involve more complex procurement. For most municipalities, the expected annual infrastructure grant will be over 2 times of their normal annual budget expended through procurement. The municipality staff therefore require in-depth and preferably hands-on training in conducting procurement.

94. Training shall be provided under the project under the institutional development element through both classroom type training and on-job training and mentoring, but with more emphasis on the latter. MoLHUD shall organize training in conjunction with PPDA at the commencement of the program to provide further orientation of the key municipal LGs staff in procurement. MoLHUD shall hire 2 Procurement Specialists (1 part time) as roving consultants to provide hands-on support and on job training and mentoring to the Municipalities in procurement under the supply driven component. The municipal LGs may also hire consultants to support them under the LDG element of the Program.

95. Given that most of the procurement shall be works procurement, adequate staffing in the Technical Services Department (Engineering) is essential to support procurement and contract management. However, these departments had the highest number of vacancies across departments in municipal LGs as at November 2011 with an average 47% of the approved positions in the department staffed[22]. For example only 5 municipal LGs have a senior / principal engineer who is the head of department while none of the municipal LGs had a roads inspector. From discussions with some of the Engineering departments, it was established that even if they were fully staffed they would not have the

[22] USMID Institutional and Capacity Building needs Assessment, November 2011, Africa Development Professional Group

capacity to do the detailed designs especially for roads partly due to absence of some of the skills e.g. Quantity Surveyors as well as lack of the tools to do tests. The absence of adequate technical staffing creates a risk of delays in procurement and inadequate works supervision, which could result in substandard and / or delayed works and inhibit achievement of program objective in the planned period. In order to address the risks of insufficient staffing at the municipal LGs, presence of the following shall be part of the minimum conditions for an municipal LG to qualify for the municipal grant (i) The positions of a qualified Senior Procurement officer and One Procurement officer substantively filled and (ii) An established Contracts Committee. And (iii) the positions of a qualified Municipal Engineer / Principal Engineer and Physical planner substantively filled. In addition to the above, municipal LGs may outsource some of the works design services to consultants where the in-house capacity is insufficient to do this. The initial designs for the infrastructure for the first two years are being funded under a separate trust fund.

96. The Ministry's Procurement Unit is fully staffed with 3 procurement staff. These staff have been oriented on the procurement and received basic introductory training on procurement from the PPDA. They therefore have the basic knowledge to conduct procurement. Given the low volume and value of procurement they handle, they are generally not well positioned to handle the more complex procurement that will come with the increased volume of procurement. Their capacity is also not adequate to support the municipal LGs. On the Technical side in the Ministry, The Directorate of Physical Planning and Urban Development will be responsible for implementation of the program. The directorate has 3 departments, namely: Urban development, Physical planning and Land use. It was noted that the technical departments for planning are inadequately staffed[23] with on 40% of the positions filled. Out of the 15 professional positions approved under the directorate of physical planning and urban development, only 6 positions have been filled representing 40% staffing level. This presents a risk to slow procurement and contract management given that most of the consultancy assignments to be implemented fall under the planning directorate.

97. To mitigate this, the program will support the selection of individual consultants to support the Ministry in implementing the program as the positions get filled. In addition to this, a Procurement Consultant will be hired by the Ministry to support them in procurement as well as provide on-job training and support to the municipal LGs. Under the program, the Ministry staff will undergo training and will also be provided with hands on support from a Procurement consultant.

Fraud and Corruption

98. ***Fraud and Corruption (F&C) remains a major risk for the Program despite the stated zero tolerance to corruption policy of the Government***. The main risks are (i) Collusion between bidders and LGs staff especially given the compliance problems highlighted; (ii) bribery in procurement with PPDA Surveys showing that 69.8% of surveyed service providers acknowledging that corruption influences procurement; and (iii) embezzlement of funds.

99. The Program will significantly increase the work load under the participating Municipal LGs due to the increase in the MDG from the current US$1.57 per capita to US$ 16.51 in the first year rising to US$28.39 by end of Program period and at the same time the MDG will provide greatly increased fiscal resources to Municipalities. These will heighten, particularly in the early years, fiduciary and fraud and corruption risks. The vulnerable areas where fraud and corruption challenges may arise are particularly during (i) Procurement of works, goods and services; (ii) Supervision and certification; (iii) Receipt of goods – weak stock verification and inventory records; and (iv) Authorizing and effecting payments.

[23] USMID Institutional and Capacity Building needs Assessment, November 2011, Africa Development Professional Group

100. ***The overall fiduciary risk for USMID** is rated **High.*** Financial management, procurement and fraud and corruption risk ratings have all assessed this program as having a “High” risk rating.

IV. Monitoring Fiduciary Performance

A. Mitigation Measures for Fiduciary Risks

101. The annual assessment of municipal LGs, which is an integral part of the program and forms the basis for annual allocation of the infrastructure grants, presents a good opportunity to address the fiduciary risks and the measures to address fiduciary risks are anchored on this assessment at municipal LG and program level. Under this municipal LG’s receive a minimum grant allocation if they meet the minimum conditions and will receive an additional performance based grant if they score favorably on the other performance indicators. Meeting the minimum conditions qualifies the municipal LG for only a total of a maximum US$ 30 million out of the total US$ 126 million worth MDG. The remaining US$ 96 million of the MDG is competitive, with better performing municipal LGs receiving higher amount of grants compared to the lower performing ones. Therefore, it has an in-built incentive structure to address identified risks. Most of the fiduciary risk mitigation measures for have been included either as a minimum condition or as performance indicators in the annual assessment. This will therefore be the main risk mitigation instrument for the project. It will be complemented by capacity building for the municipal LGs in procurement and financial management to help strengthen their systems under the municipal CBG element of the Program.

102. At program level, the above measures are also buttressed by the Disbursement Linked Indicators which are designed to ensure that all municipal LGs meet the minimum conditions by year 3 with 43% of total disbursements to be tied to this. Further, on the scoring side, municipalities should achieve an average minimum score in order to qualify for program disbursement and a 5% improvement required annually. 43% of the disbursement is tied to this.

103. DLI 7 is a key risk mitigation measure. Of the 14 ULGAs that are the beneficiaries of this program, twelve do not have any automated systems in place and follow manual accounting procedures. Given the large increase in flow of development funds to these Local Governments, it has been agreed that the Tier 2 Integrated Financial Management Information System (Microsfot Dynamic) will be rolled out to these 12 local governments. This system has seven modules: been successfully piloted across local government seven modules: General Ledger (Cash and Accrual System, Fund Accounting, Commitment Accounting), Budget Planning, Purchasing and Commitment, Accounts Payable, Cash Management, Inventory/Stocks and Revenue Management. It has been successfully piloted in local governments across Uganda. It has been agreed with Government that within the first two years of this program, this system will cover the beneficiary local governments under this program. The inbuilt controls and audit trails are expected to improve financial management and help reduce the fiduciary risk.

104. MoLHUD will also benefit from similar training under the project. In addition to this, the procurement specialist hired to support municipalities will also support the Ministry in conducting their procurement. Below is a summary of the proposed risk mitigation measures.

Table 3 Risks and mitigation measures / capacity strengthening plan

Issue/risk description	Action/Completion	Time Frame	Responsible Party	Instrument
Inadequate procurement planning, splitting of contracts during planning, non-adherence to the procurement plan and inadequate monitoring of progress against the plan contributing to delayed service delivery and limiting cost effectiveness.	Adoption of the PPDA FY12/13 procurement planning format which will address current weaknesses Training of Municipal LGs in procurement planning and especially packaging of contracts to ensure proper consolidation of procurements.	Within 6 months of effectiveness; and throughout program period	Municipal LGs/ MoLHUD	DLI
Low bidder participation	Use and promotion of the use of the PPDA/GoU Procurement Portal by Municipal LGs through supporting publishing in the newspapers of all notices (abridged versions) that are published in the PPDA tender portal fortnightly for an initial 3 months period under the program Conduct business outreach programs in partnership with PPDA, UNABSEC, UIA and Ministry of Lands	For the first 3 months Throughout Program period	MoLHUD, municipal LGs, PPDA and UNABCEC	Agreement
Inadequate advertising of bid opportunities in a manner that encourages bidder participation	Adhere to required standards for publication of procurement notices to promote increased bidder participation.	Throughout Program period	Municipal LGs	DLI
Limited hands-on experience in the preparation of bidding documents and evaluation of bids	Conduct training on the procurement cycle covering preparation of bidding documents and BERs. This will be through formal training workshops conducted by consultants hired by MoLHUD.	Throughout Program period	MoLHUD, municipal LGs	DLI
Non- adherence to pre-disclosed evaluation criteria during bid evaluation	Adhere to outlined criteria in the bidding documents.	Throughout Program period	Municipal LGs	DLI
Insufficient audit of procurement	Cause internal audit to cover audit of Program procurement transactions. Carry out annual procurement audits.	Throughout Program period	Municipal LGs PPDA	DLI Covenant
Forgery of Bid, performance and advance payment Securities where Bank guarantees are required	Verification of bank guarantees during evaluation in the case of bid securities and prior to contract signing or release of advance payments in the case of performance guarantees and advance payment guarantees respectively Encouraging use of Bid securing declarations in lieu of Bank Securities in the case of Bid Securities	Throughout Program period	Municipal LGs	DLI

Weak financial management at the LG level	Roll out of IFMIS to all Program municipal LGs	By end of LG disbursement year 2	Accountant General	DLI
Accounting and financial reporting system risks through: Misleading reporting and budgetary information due to wrong classification Delayed reporting. False accounting and accountabilities	Training of municipal financial officers in the application of chart of account codes especially in respect to USMID, Capacity building in accounting procedures and the preparation and use of financial reports	Throughout Program period	Accountant General MoLHUD, MoLG, Town Clerk	DLI
Treasury management and funds flow through Potential diversion of funds by municipalities from Program purposes Delayed release of funds to Municipal LGs	Grant expenditure menu Separate account to be opened in Municipal LGs for program funds Funds release to be done 6 monthly to Municipal LGs in timely manner.	Throughout Program period	Municipal LGs MoFPED	DLI
Internal controls including internal audit Management override of controls, internal audit being compromised and not independent, lack of resources by internal audit, and failure to implement internal audit findings	Implementing Internal Audit activities as per regulations is a minimum condition of accessing grant Capacity building for internal audit staff, facilitation and segregation of key duties as per regulations Independent Audit to report any outstanding Internal Audit recommendations in annual Audit	Throughout Program period	Municipal LGs, MoLHUD, OAG	DLI
External audit and integrated audit Failure to submit accounts for audit in time, Poor following up to rectify issues raised in audit reports	Capacity building for finance staff, Segregation of key duties as per regulations, Implementation of audit findings Timely assessment of DLIs by MoLHUD	Throughout Program period	MoLHUD, Municipal LGs	Coven ant

Issue/risk description	Action/Completion	Time Frame	Responsible Party	Instrument
Internal controls including internal audit Management override of controls, internal audit being compromised and not independent, lack of resources by internal audit, and failure to implement internal audit findings	Implementing Internal Audit activities as per regulations is a minimum condition of accessing grant Capacity building for internal audit staff, facilitation and segregation of key duties as per regulations Independent Audit to report any outstanding Internal Audit recommendations in annual Audit	Throughout program implementation	Municipal LGs, MoLHUD, OAG	DLI
External audit and integrated audit Failure to submit accounts for audit in time, Poor following up to rectify issues raised in audit reports Inadequate checks on performance of projects and high Unit costs	Capacity building for finance staff, Segregation of key duties as per regulations, Implementation of audit findings as a minimum condition for accessing the grant Timely assessment of DLIs by MoLHUD Auditor General to conduct VFM audits beginning end of second year of Program and thereafter annually	Throughout Program period	MoLHUD, MoLG, Accountant General, and Town Clerk	Covenant

105. ***Fraud and corruption mitigation measures* -** Fraud and corruption in the Program will be mitigated through a three prong approach, namely: preventive actions, deterrent, and detection mechanisms. These measures will include: (i) stringent oversight arrangement by the MoLHUD of Program implementation activities especially in the areas of fiduciary, technical supervision and oversight including provision of modular engineering designs for some of the sub-projects where possible, (ii) ensuring that only those municipal LGs which have the core staff in post will qualify to access the investment grants and, (iii) engaging as much as possible the communities in monitoring of Program through enhanced information sharing. Improving the environment to mitigate F&C in the participating municipal LGs is a specific goal of the Program, and will be addressed directly through the various measures outlined in the PAP – Annex 8 and elsewhere in this document. More specifically:

- The Minimum Condition and Institutional Performance aspects of the annual assessment will include measures such as strengthened financial management and procurement systems, development and adoption of a customized local version of the *Framework For Promoting Good Governance and Anti-Corruption in Local Governments 2012-2015,* establishment of an operational Complaints Handling System for handling grievances related to fraud and corruption, publicly advertising the bidding procedures, and disclosing contract awards to the public. The value for money audits to be undertaken by the end of the second year will form half of the score for the Infrastructure Delivery assessment will also provide a powerful institutional disincentive for corrupt practices in project procurement and implementation;
- The capacity building programs to be managed at MoLHUD and by municipal LGs using the MCBG will specifically focus, among other things, on accountability and monitoring at the municipal LG level to mitigate the fraud and corruption risk.

106. In addition, the responsibility for ensuring that any case of suspected fraud and corruption are expeditiously reported to the national primary and secondary agencies mandated to investigate and prosecute cases of corruption and crime, (IG, CID or DPP) will be placed on the municipalities and MoLHUD, who will also be required to strictly enforce any necessary administrative sanction within their remits to raise the bar on corruption**.** The Municipalities and MoLHUD will provide bi-annual reports of any case of suspected fraud and corruption reported to the IG, CID or DPP and also on administrative sanctions within their remits. . The Inspectorate of Government will publicize in its statutory bi-annual report of its activities to Parliament action taken or being taken on any case of suspected fraud and corruption in the Program. The municipalities and MoLHUD will also establish and implement comprehensive complaints and grievance handling mechanisms and have initiatives for participation of Non-State Actors, professional groups, civil society coalitions to monitor all stages of the program implementation to help improve chances of meeting Program outcomes. The various fraud and corruption mitigation measures have been included in the PAP in Annex 8.

107. ***Alignment with ACG for PforR Operation -*** To address the F&C associated with fiduciary risk, USMID implementation will be aligned to the Anti-Corruption Guidelines (ACG) applicable to PforR Operations. The measures that will be instituted under the Program to raise the bar on fraud and corruption will include the following:

- *Sharing of debarment list of firms and individuals.* The GoU Public Procurement and Disposal of Public Assets Authority (PPDA) will share with MoLHUD and the municipal LGs and also the IG, CID and DPP, on a quarterly basis, the list of firms and individuals which have been debarred or suspended from participating in procurement in Uganda. The Bank will likewise share with the PPDA, MoLHUD, municipal LGs, IG, CID and DPP similar list of firms and individual debarred or suspended by the Bank. The bidding documents for works, goods and services to be financed under the Program will have explicit clauses to the effect that firms and/or individuals which have been debarred or suspended by the Bank or PPDA would not be eligible to bid under the program. The Program will put in place enhanced information flows by leveraging ICT innovations and encouraging MoLHUD and participating Municipal LGs and stakeholders to disclose information through mobile platforms.
- *Sharing of information on F&C allegations* – in line with the PforR ACGs, the Inspectorate of Government (IG) will share with the Bank, through its statutory bi-annual reports of its activities to Parliament, action taken or being taken on complaints and grievances received from the general public on F&C. The CID and DPP will also share with the Bank, through the Annual Report of Corruption Trends in Uganda using the Data Tracking Mechanism action taken or being taken on cases reported to them. The IG, CID and DPP are mandated by their governing Statutes to receive complaints and reports from the public and other stakeholders, including participating Municipal LG staff. However for the Program, the IG will be the coordinating institution for receiving and reporting on cases of suspected fraud and corruption. A complaint, grievance or report can be a notification in writing, verbal or electronic regarding any Program activity and/or conduct of staff, consultants, service providers, partners and/or sub-contractors of the implementing agencies, which the complainant perceives to be wrong. The complainant is not required to be personally aggrieved or impacted and therefore could act merely out of a sense of civic duty in bringing an occurrence to the attention of the authority. The IG and CID receive such complaints and reports electronically through their respective websites, and alongside DPP also in writing or verbally through a dedicated hotline which are then processed as outlined in the Flow Charts in Appendix 4. The IG has so far established 16 IG Regional Offices strategically throughout the country to deliver its services closer to the people and all the 14 Municipal LGs have IG Regional Offices. The CID and DPP also have District Offices and Stations respectively in all the Districts in which the 14 Municipal LGs are located. At the participating Municipalities, each municipal LG will be required to establish grievance committees as one of the minimum conditions for fighting F&C under the Program.

- *Investigation of F&C allegations* – The IG and CID as the primary and secondary agencies for investigation, and in the case of IG, prosecution, of cases of corruption and crime respectively, are granted powers by the Constitution (1995) and their governing Statutes to enable the agencies perform these functions. These include the power to: (i) conduct an investigation and prosecution, (ii) summon a public officer and/or witness, (iii) compel production of documents, (iv) arrest and detain suspects, (v) access and search premises and other property, and (vi) inspect any bank account. The IG is also granted independence in the performance of its functions and is not subject to the direction and control of any authority and is only responsible to Parliament. The IG governing Statute empowers the IG to work in consultation with other technical experts to enhance the performance of its functions. In in this spirit in 2010 the IG entered into an MoU with the Integrity Vice Presidency (INT) of the World Bank to cooperate with each other within the scope of their mandates, and specifically to closely cooperate and consult each other regularly on matters of mutual interest by, amongst others; (ii) sharing information of relevance for detection, substantiation and prevention of F&C in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under the World Bank Group rules and policies and (ii) undertake joint activities and collaborate when appropriate in each party's efforts to detect, substantiate and prevent F&C. The MoU will therefore make it possible for the INT to collaborate with the IG on any case of suspected fraud and corruption in the Program and INT will also leverage the synergies of the MoU to similarly collaborate with the CID and DPP on such cases.

108. In addition to the above measures, the Program will build in scope for Non-State Actors, professional groups, civil society coalitions to participate in monitoring both implementation processes at all stages of the Program to help improve chances of meeting Program outcomes. The Municipalities and MuHLD will be required to publicly disseminate information on program implementation and results at foras like Baraza's and Municipal notice boards to allow for non-state actors, professional bodies, citizens and CSO to enhance transparency on program implementation and results and facilitate monitoring of the program. In addition, the Program minimum condition and key performance measures have incorporated measures to mitigate F&C. Parallel to the Program is an on-going City Alliance Support program (CASP) supporting the development and operationalization of Municipal Development Forums (MDF) that bring together various stakeholders to play role of monitoring. Currently the CASP is looking at only 5 municipalities. The MoLHUD intends to roll out the MDF to all the 14 municipalities. The recruitment of key staff to cover the shortfall across municipalities and the MHLUD will help meet Program objectives and act as a mitigation measure for fraud and corruption and other challenges identified under fiduciary assessment. In addition several of the performance measures target improvements in transparency, procurement, financial management quality of works and sound environmental management. The Program reward/sanction system provides incentives for Municipal LGs to implement.

B. Program Audits and Bank Monitoring

109. **USMID Program Audit**: The program audit will entail the audit of the individual Municipalities as entities with distinct audit reports and then consolidated with MOLHUD to capture the whole program. This type of audit will help in assessing individual Municipal Council performance. Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program and will be relied on for the program. The program will be audited under the OAG existing framework. The Auditor General shall conduct annual statutory audits of participating municipal LGs and the MoLHUD. There shall be annual statutory audits with expanded scope after 2 years to cover Value For Money (VFM) aspects by the Auditor General in the 14 municipal LGs in light of the increase in expenditure on the infrastructure under the program as per agreed ToRs. The VFM audits will be carried out as per agreed ToRs and will provide the basis for a significant proportion of the performance score awarded to the Municipalities in the Infrastructure Delivery part of the annual assessment.

110. PPDA will also be supported to conduct annual procurement audits in all participating MCs. These audits shall be conducted by PPDA using their in-house teams or through consultants hired by MLHUD but prequalified and supervised by PPDA. The audits shall be an input to the annual assessment of MCs.

111. All 14 MCs will submit their audited financial reports together with the management letters to MOLHUD and World Bank by 31 March each year which is 9 months after the end of the FY. MOLHUD will summarize the audit opinions and consolidate the audit findings including the ministry audit with an action plan on reported internal control weaknesses and submit to the WB not later than 30 April each year.

112. The audit reports to be submitted are summarized in the table below:

Audit Report	***Responsibility***	***Due dates***
MoLHUD and 14 MCs audited reports including the Management letters	MoLHUD and 14 MCs	31 March each year
Consolidation of the 14 municipal LGs reports & MoLHUD audit reports submitted to WB	MoLHUD	30 April each year

113. The effectiveness on follow up of audit findings is an integral part of the annual performance assessment.

V. Implementation Support Plan

A. Reviewing Implementation Progress

114. The main reference for monitoring fiduciary performance shall be the annual assessment of Municipalities. This annual assessment shall be conducted by an independent firm contracted by MoLHUD. The Assessment shall include visits to the Municipal LGs but shall also draw data from Audits conducted by the Auditor General, Procurement Audits by PPDA and the Procurement Performance Measurement System (PPMS).

115. PPMS which was developed by PPDA in 2009 is used to monitor the performance of different agencies. The system is currently extended to 105 procuring entities with 6 of the 15 participating Municipal LGs using the system. The system is based on self assessment done by the entities themselves although selected indicators such as record keeping are audited on a sample basis to ensure veracity of the data. PPMS and its roll out to all participating Municipal LGs and source of data for M&E and complemented by audit. The system among others covers the following indicators: (i) Completeness of procurement methods; (ii) Distribution of contracts by procurement method, (iii) number of bids received for each contract, (iv) % of contracts completed within the original contract time and (v) Compliance with evaluation criteria. The PPMS will therefore be a good source of data or monitoring procurement performance under the program once all the participating entities are on the system. The Program will support rolling out of the PPMS to the rest of the 8 participating Municipal LGs and the MoLHUD.

116. Progress will also be monitored through Annual audits of procurement to be conducted under the supervision of the PPDA. The audits will assess compliance to the system as well as effectiveness in

achieving cost effectiveness, competition and timelines in service delivery through procurement. The audits will provide the basis for some of the indicators in the annual assessment.

B. Monitoring the Performance of Fiduciary Systems and Audit Reports

117. Most of Bank's implementation support team members (fiduciary, safeguards, and Governance and Anti-Corruption), including the Task Team Leader, are either based in the Uganda Country Office or in the Region. This will ensure timely, efficient and effective implementation support to MoLHUD and the municipal LGs. Formal implementation support missions and field visits will be carried out semi-annually, or as deemed necessary.

118. The implementation support is summarized as follows:

Area	Skills Needed	Estimate Staff Time Needed
Procurement support	Procurement Specialist	6 SWs
FM training and supervision	FM Specialist	4 SWs
Task Team Leadership	TTL	10 SWs
Financial Management, disbursement and reporting	FM Specialist Local Government Specialist	2 SWs 8 SWs
Technical and Procurement review of the bidding documents	Procurement Specialist Municipal Engineer	4 SWs 4 SWs
GAC	Environment Specialist Social Specialist	2 SWs 2 SWs
Fiscal flows/ fiscal decentralization/ LG performance measurement	Economist	5 SWs

C. Monitoring Changes in Fiduciary Risks to the Program

119. The frequency and breadth of fiduciary systems supervision review missions, expected to begin as twice each year, may be varied in accordance with changes in the risks to the program. It is expected that as implementation progressed, substantial improvements in procurement and financial management capacities will reduce the risk profile and may afford a reduced supervision schedule. This will be determined by the bank's fiduciary systems team which all at stages will continue to monitor compliance with the fiduciary provisions of legal covenants.

Annex A: PEFA Scores for the Uganda (Central Government)

	Summary of Indicator Scores					
		2008	2012	Worse	Improved	Same
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	C			
PI-2	Composition of expenditure out-turn compared to original approved budget	C	D+			
PI-3	Aggregate revenue out-turn compared to original approved budget	A	D			
PI-4	Stock and monitoring of expenditure payment arrears	D+	C+			
PI-5	Classification of the budget	A	A			
PI-6	Comprehensiveness of information included in budget documentation	A	A			
PI-7	Extent of unreported government operations	D+	D+			
PI-8	Transparency of Inter-Governmental Fiscal Relations	D+	D+			
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C	C			
PI-10	Public Access to key fiscal information	B	B			
PI-11	Orderliness and participation in the annual budget process	C+	C+			
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+			
PI-13	Transparency of taxpayer obligations and liabilities	B+	A			
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B			
PI-15	Effectiveness in collection of tax payment	D+	C+			
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+			
PI-17	Recording and management of cash balances, debt and guarantees	C+	B			
PI-18	Effectiveness of payroll controls	D+	D+			
PI-19	Transparency, competition and complaints mechanisms in procurement	D+	D+			
PI-20	Effectiveness of internal audit controls for non-salary expenditure	C	C			
PI-21	Effectiveness of internal audit	C+	C+			
PI-22	Timeliness and regularity of accounts reconciliation	B	B			
PI-23	Availability of information on resources received by service delivery units	B	B			
PI-24	Quality and timeliness of in-year budget reports	C+	C+			
PI-25	Quality and timeliness of annual financial statements	C+	C+			
PI-26	Scope, nature and follow-up of external audit	C+	B+			
PI-27	Legislative scrutiny of the annual budget law	C+	C+			
PI-28	Legislative scrutiny of external audit reports	D+	D+			
D. Donor Practices						
D-1	Predictability of direct budget support	D	D			
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	C	C			
D-3	Proportion of aid that is managed by use of national procedures	D	D			

Annex B: Snap-shot of FDS development

Reform areas	Achievements	Challenges	Factors/comments
Increased LG autonomy in utilisation of grants	The 10% flexibility across the PAF service areas (non-wage recurrent) was implemented for the first time in FY 2006/07 and many LGs have used the increased flexibility to reallocate funds across sectors according to local needs. This had started a sound dialogue on local priorities across sectors, but was ceased in 2008. The PRDP districts (in the North) were provided with 50% flexibility.	The sector budget guidelines still contain many restrictions in the utilisation of each grant (multiple budget lines) and provide limited local flexibility. The sector *development* grants have not been folded into the non-sectoral grants or targeted by the FDS initiatives; hence the LG flexibility in resource allocation on dev. exp. has not been improved beyond the LGDP. The 10% flexibility in grant utilisation was abolished from FY 2008/09 by the Cabinet due to resistance from some of the Line Ministries (LMs). Similarly the PRDP flexibility was also removed.	Some of the sectors (including Education and later Water) were against the increase in LG flexibility in grant utilisation and as they were concerned that it will compromise the achievement of sector national service delivery targets. The resistance led to an abolishment of the rule on flexibility. On one hand the flexibility introduced healthy dialogue on cross-sectoral priorities, but the resistance and abolishment of the initiatives point in the direction of need for other tools to enhance LGs' discretion.
Better targeting of the allocation criteria in the grants towards poor LGs	New allocation criteria have been implemented for the equalisation grants, LDG and the UCG (however, the latter has some pitfalls, as it is mainly covering fixed salary costs).	Many of the proposed new allocation criteria for the sectors in 2004 have still not been implemented. Many grants need clear and transparent formulas. The equalisation grant is still insignificant (below 0.5% of the total grants).	Some of the sectors, particularly Education have resisted the new transparent formulae with unclear reasons. The regional disparities in Uganda have prevailed, hence a need for stronger allocation formulas, which preserve incentives to improve performance.
Strengthening of the LG budgeting process (LGBFPs and annual work-plans and budgets)	FDS piloted better links between budgets, work-plans and reporting. Requirement to link budget and plans have been strengthened in the annual assessments. The new OBT from FY 2009/10 is focusing on improving and consolidating the annual work-plans using a common format. This is a significant work on ensuring that the LGs are applying these new tools.	Some of the districts are still not fully on board in the use of the new procedures and formats. The links to the computerised IFMS and the FDS formats has been a challenge. The NDP has introduced 5 year development plans, but this has not yet been implemented due to legal and procedural challenges (the LG Act has a 3 year perspective). Despite the new MoFPED supported OBT - new work-plan formats – some of the sectors are proceeding with parallel systems.	The support to the roll out of the FDS has been inadequate. The FDS reform requires significant CB support, but this support has not been timely and has not covered all LGs equally. There is a need for continued interactions and support to the LGs in terms of rolling out of the new OBT (output based tool). The sectors' needs to be brought more on board to ensure linkage with the sector plans.
Reporting systems	FDS reporting formats were elaborated and the reporting has been streamlined on a pilot basis. More recently in FY 2010/11, new reporting formats for reporting under the MoFPED,	Some of the sectors are still using their "old" formats despite the FDS and the MoFPED supported reform. Much of the accountability is still towards the sector LMs. There are still multiple reporting and M&E	Some of the LMs have not supported the FDS due to sector specific interests. MoFPED and MoLG need to strengthen the coordination with the LMs on the required reporting formats and

Reform areas	Achievements	Challenges	Factors/comments
	Form B has been introduced providing a potential link between input and output performance reporting.	systems, not sufficiently coordinated. Introduction of the new Form B, supported by MoFPED has not yet led to reduction of the requirements in the other reporting formats, leading to double work for LGs.	introduction of the new OBT- Form B and improving the links with the sector information required.
Improved LG revenues	A number of activities were launched to improve LG revenues, including studies, setting up of revenue desk in MoLG, CB support to LGs, sensitization and sharing of best practices, etc. at the technical level and this had a certain impact on the development in own source revenues from 2002, but the abolishment of the major tax (G-tax) and other political initiatives in 2005/06 overshadowed this short-lived improvement.	The LG tax base is now extremely narrow, and the revenue autonomy significantly decreased. The abolished tax sources, and the insufficient and late compensation has impacted negatively on most of the LG core operations, and on the good governance performance, particularly in the LLGs, which were nearly entirely dependent on G-Tax, see below. LGs now finance less than 5% of their expenditures from own source revenues, and have continued to decrease since the FDS was introduced.	Incongruence between the political and technical initiatives on LG own source revenues. Legal initiatives have reduced the LG tax assignments prior to establishment of alternative LG sources. The lack of sufficient compensation has worsened the problems within the core functions of the LGs. Need to strengthen existing taxes and identify innovative ways and means to improve LG OSR.
Reduction in the transaction costs and improved predictability and timeliness in the transfers from central government	The accounting and banking requirements have improved, e.g. the number of bank accounts have reduced, and lowered the LG costs of operations. The timeliness of the grants has improved.	The delays in transfers still impact negatively in some LGs on the planning, budgeting and operations within core service delivery areas. In addition, the late and changing announcement of indicative planning figures seem to have worsened. IPFs are announced too late in November or December each year, and there are frequent changes. However, work to improve on this is ongoing.	The late announcement and changes in indicative planning figures (IPFs) from Central Government demoralise and compromise the LG planning process. There is a need to advance the IPFs and make them more robust. However, the picture is better than in many other developing countries.
Improved institutional coordination of the LG finance issues	The established LG Budget Coordinating Committee is operating and important issues are being discussed on a regularly basis. The associations of LGs are also involved in dialogue on core issues.	To bring the sectors sufficiently on board in the FDS implementation is still a great challenge, and it has not been possible to get through with major reforms of the IGFTS.	Support to the FDS implementation has been inadequate.[24]

[24] Some of the DP supported programmes have been covering a number of districts in their support, but other programmes have not complemented sufficiently to ensure a balanced and country-wide application.

Annex C: Different Reporting Systems for LGs

Major reporting system	Purpose	Comments
IFMIS	PFM system to improved financial management, accounting, reporting, etc. – general system.	IFMIS is being gradually introduced, but it will take many years before it covers all LGs, and the system will vary according to the size and needs of LGs, see the MTR of LGMSD, 2010.
Form B and the new OBT under MoFPED	Accountability tool to review the activities and outputs of the funds allocated from MoFPED against the LGs own work-plans. Focusing on reporting by departments.	Is very comprehensive, not fully applied yet, but evolving – Form B is potentially a significant tool, but needs to ensure that sectors are more on board and that other systems are streamlined accordingly. The system may need to be better linked with reporting on source of funding (coding for source of funding).
LOGIS+	Is a service delivery and fiscal analysis tool - general integrated monitoring tool.	Is not applied in many LGs, and incentive to use it is lacking. The support to apprehend and apply the system is lacking and the last major training event was conducted in 2007. Municipalities visited could not use the system due to lack of internalisation and support.
Sector grant reporting systems	Sector specific requirements on input and outputs.	There is need to align these with the Form B above. The idea is that the sector information should be extracted from Form B.
LGMSD reporting	Rather comprehensive on inputs, activities, output and some intermediate outcomes (e.g. number of beneficiaries) - grant specific tool.	It is grant/project specific and demanding, but provides the grant scheme with useful information about the use and impact. It will need to be aligned with Form B of MoFPED, which may cover some of the reporting needs in the future.
Project reporting	Multiple forms from various DPs/projects.	Need for mainstreaming of all these, particularly with Form B.
Annual assessments of LG’s performance	Focuses on PFM, Governance, cross-cutting performance of LGs but has in the recent years included some sector indicators of performance.	There is a need review and refine this system, and ensure that it is focusing on the core objectives of the grants - there has been a tendency to attempt to cover all information needs in this system and there are risks of overloading the system, and derailing its original intension, see Section 4. The system can be better positioned to draw some of its data requirements from other systems, such as Form B.

Annex D: PEFA Scores for the Uganda (Local Governments) August 2012

		TORORO	MPIGI	KASESE	KABALE	LIRA (MC)	GULU (MC)	BUIKWE	HOIMA	PADER	JINJA
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	C	A	B	D	D	NA	B	D	A
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	B+	C+	C+	D+	D+	NA	D+	D+	A
PI-3	Aggregate revenue out-turn compared to original approved budget	D	D	D	D	D	D	NA	D	D	D
PI-4	Stock and monitoring of expenditure payment arrears	C+	D+	C+	B+	C+	D+	D+	D+	C+	D+
PI-5	Classification of the budget	A	A	B	B	A	A	A	A	A	A
PI-6	Comprehensiveness of information included in budget documentation	B	B	B	B	B	D	B	B	C	B
PI-7	Extent of unreported government operations	A	A	B+	B+	D+	C+	A	A	C+	A
PI-8	Transparency of inter-governmental fiscal relations	C	C	C	C	C	D+	C	C	C	C
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	D	D	A	A	D	D	D	D	A
PI-10	Public access to key fiscal information	B	C	C	B	C	C	C	C	C	C
PI-11	Orderliness and participation in the annual budget process	B	B	B	C+	B	D+	D+	C+	D+	D+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C+	C+	B	C	C+	C+	C	C	C
PI-13	Transparency of taxpayer obligations and liabilities	C	C	C	C	C	C	C	C	C	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D	D	D+	D+	D+	D+	D	D+	D	D
PI-15	Effectiveness in collection of tax payments	D	D	D+	D+	D+	D+	D	D+	D	D
PI-16	Predictability in the availability of funds for commitment of expenditures	D	D+	D+	D+	D	D+	D+	D+	D+	C+
PI-17	Recording and management of cash balances, debt and guarantees	D	C+	D	C	C	C+	C	C	D	D
PI-18	Effectiveness of payroll controls	C+	C+	C+	C+	D+	NS	C+	C+	NS	C+
PI-19	Competition, value for money and controls in procurement	B	B	C+	C+	C+	C	B	C+	C	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+	D+	C+	D+	D+	C+	D+	D+	C+
PI-21	Effectiveness of internal audit	C+	C+	C+	D+	C+	C+	C+	B	B	D+
PI-22	Timeliness and regularity of accounts reconciliation	B	A	B	B+	B	C+	B+	C+	NS	A
PI-23	Availability of information on resources received by service delivery units	D	D	D	D	D	D	D	D	D	D
PI-24	Quality and timeliness of in-year budget reports	C+	B+	C+	C+	C+	C+	C+	C+	D+	C+
PI-25	Quality and timeliness of annual financial statements	C+	C+	C+	C+	C+	C+	C+	C+	D+	C+
PI-26	Scope, nature and follow-up of external audit	D+	C+	D+	D+	C+	C+	C+	C+	C+	C+
PI-27	Legislative scrutiny of the annual budget law	C+	D+	D+	C+	C+	C+	C+	C+	C+	C+
PI-28	Legislative scrutiny of external audit reports	D+	D+	D+	D+	D+	C+	D+	D+	D+	C+

Annex E: Findings of the "Financial Management In-Depth Supervision Report" - May 2011

The main weaknesses identified were:

- *Budget control and monitoring is weak for all Projects as no regular budget variance analysis statements are prepared to provide useful information for mid-course corrections. The supervision mission recommends that budgets be regularly compared with actual, and variances determined, analyzed, and explained for meaningful corrections to be made.*
- *There were instances where Chart of Accounts codes are not compatible with the budget codes (e.g. KIIDP).*
- *The staffing levels in many Projects are not adequate which leads to delays in processing payments, recording transactions and submission of IFRs. The mission recommends that the PCUs concerned recruit staff to fill vacant positions.*
- *Adequate training is not provided to accountants of all Projects, especially at the districts. The supervision mission recommends that adequate training and development programs be implemented to continuously update staff in FM Guidelines and Financial Management.*
- *Projects reviewed that use computerized accounting systems generate reports through manual approach. The supervision mission recommends immediate and effective automation of the Project accounting systems.*
- *Frequent transfers of Project staffs and high staff turnover were noted to affect efficiency at several of the PCUs. The recent creation of new districts has created serious staffing gaps in some districts[25].The mission suggests that management staffing issues at PCUs be addressed.*
- *Several deficiencies were noted with the IFMIS system including frequent network breakdown, inadequacies in handling detailed accounting functions, and errors in generating bank reconciliations.*
- *Most districts visited, Small Towns Water Project and UPSPEP have manual accounting systems which cannot automatically generate required reports.*
- *The accounting system in some PCUs[26] was not appropriate to adequately account for Bank funds. Several Projects use manual accounting systems especially through Microsoft Excel Spreadsheets. The mission team recommends that an effective computerized accounting package be installed in compliance with the requirements of the financing agreement. The accounting records were not up to date.*
- *Poor bookkeeping and filing system were noted in several Projects; for example, the Third Phase Road Development Program and the UPSPEP.*
- *The filing system at UPSPEP was inadequate i.e. transactions of the two Projects (UPSPEP and UPSRP) were mixed up; accounting records not up to date, vouchers were not numbered, and the team could not conclude with certainty that Project funds are used for the purpose*

[25] *Jinja, Masaka, Kumi*
[26] *UPSPEP, Masaka, Budaka*,

intended. The supervision team has recommended separate book keeping and records for each Project and recruitment of a qualified experienced accountant. Book keeping must be complete and up-to-date to enhance reliance.

- *A review of documentation in a number of Projects indicated some payments were not adequately supported, authorised / approved. The mission recommends that all payments must be approved and supported.*
- *Lack of bank reconciliation statements noted in several Projects reviewed. In Soroti district, the IFMIS generated bank reconciliations had adjusting entries which the accountant could not substantiate. To detect any irregularities in a timely manner, the supervision mission recommends that bank reconciliation statements be prepared monthly. Staff should be trained to use the IFMIS to generate accurate reconciliations.*
- *Documents of almost all Projects paid at the PCUs were not stamped "Paid". The mission recommends that these documents be stamped "Paid" to prevent duplicate payment in future.*
- *Late submission of Interim Financial Reports to the Bank was noted in most of the Projects. The mission team was also concerned about the accuracy and reliability of the IFRs submitted under LGMSDP considering several material errors noted in the accountability reports from the districts. PCU staff could not explain the basis of the figures in the reports. The supervision mission recommends that interim financial reports be submitted timely and accurately.*
- *The operations of the petty cash system were not appropriate in many of the Projects. For example, at LVEMP, no accounting system exists and segregation of duty does not exist; cash counts are not undertaken; petty cash expenditure was not properly accounted, hence possible existence of misuse of Project funds. The supervision mission recommends that the Project internal controls system be strengthened to ensure effective segregation of duty and supervision, proper authorization of expenditure and payments. The petty cash accounting system should be improved.*
- *Adequate FAR is not maintained in many Projects. A comprehensive FAR is recommended for all Projects.*
- *Internal audit function needs to be strengthened in some Projects e.g. UPSPEP, LGMSDP and LVEMP to ensure Project funds are properly accounted for. In all districts visited, the mission noted that administratively the Internal Auditors report to the CAO which may impair their independence.*
- *Except Small Towns Water Project, concerns were noted in IFR submissions in all Projects. The supervision mission recommends that issues raised be addressed immediately by the Project management.*
- *Serious advances accountability problem was noted in all PCUs. Long outstanding advances to various offices, staff and Imprest advances were noted. For example, Imprest advance of UGX 140,239,082 to Uganda Investment Authority under PSCP II has not been accounted for. UGX 205,905,000 advanced to Ayemo Investment, a contractor who did not fulfil contractual terms and a contract terminated in the FY 2008/09 is still outstanding pending a court case.*

A total amount of UGX 232,914,470[27] advanced to the Secretary to the Office of the President from the UPSRP funds has not been accounted for to date.
At LVEMP, UGX28,640,000 was not accounted for.
At MoLG, no detailed records were provided to account for UGX3,862,815,226 Travel and subsistence allowance per the Project Trial Balance[28] provided to the team.UGX17,510,200 on workshop; UGX1,009,707,350 for professional training (local)and UGX77,878,880 for staff training have not been accounted for. Other significant advances not accounted for[29] under LGMSP were noted. Other smaller advances not accounted for also exist as indicated in individual reports. The supervision mission recommends immediate recovery or accountability of all these advances.

- *Long outstanding external audit issues were noted in a number of Projects; for example, PSCP II and UPSPEP. The supervision mission recommends immediate implementation of the auditors recommendations documented in the audit reports.*
- *Ineligible expenditure was noted during the mission. UGX37,190,000 under UPSPEP was spent on ineligible expenses. Additionally, ineligible expenditure of UGX78,085160 without obtaining Bank "no objection" authorization to incur the expenditures (e.g. PSDO, EATTFP, NUSAF2). A refund has been recommended.*
- *Low level of Project implementation was noted in many Projects particularly LVEMP, LGMSDP, PSCPII and UPSPEP. Weak monitoring was noted. Project management must ensure implementation is hastened to achieve set objectives.*
- *Despite low implementation level of Projects, very high monitoring and supervision expenditure were noted in all PCUs under LGMSDP and in some Districts, the budgeted levels for monitoring and supervision were exceeded[30].*
- *The mission team noted that at LVEMP, operating costs constitute a significantly big percentage of expenditure compared to implementation of Project activities. About 85% of total funds utilized to date were spent operating expenditure and only 15% of funds used are for mainstream Project activity. The mission team recommends effective control over operating expenditure, and serious implementation action adopted.*
- *Advances Register not kept in all Districts visited. The mission team recommends that Districts should maintain adequate records of advances by keeping Advances Register.*
- *Procurement Guidelines were not followed in the acquisition of goods and services. The mission team recommends that the Bank Procurment Guidelines be followed at all times in the acquisition of goods and services (Millennium Science Initiative Project - MSIP).*
- *Honoraria and sitting allowances paid to civil servants for duties specified in their job descriptions in several Projects (e.g. EMCBP2). The mission team recommends that where it is imperative that such allowances must be paid, they should be disbursed from the GOU (NEMA) funds.*
- *High staff turnover was noted in some Projects affecting Project implementation (e.g. USPEP, EATTFP).*

[27] *UGX 60,914,470 (advanced 7th April 2008) and UGX 172,000,000 (advanced 18th February 2010)*
[28] 21st March 2011
[29] KCC (UGX 69,435,500); Soroti District (UGX 24,473,102) , Masaka (UGX 30,640,000) and Budaka (UGX 12,210,400)
[30] Kumi, Masaka, Budaka

- *Instances of fraud were noted in some of the Projects (EATTFP = UGX27,057,000; NUSAF1 (Nebbi District = UGX19,367,306). The mission recommends that GOU refund these funds to the Bank.*
- *Instances where audit reports for the year ended June 30, 2010 were submitted late after the specified due date of December 31, 2010 (e.g. MSIP which was 60 days overdue).*

Annex F (a): Ministry of Lands, Housing and Urban Development: Staff Vacancies

0	Total Approved	Numbers by Category		Vacancy Levels by Category (No's)		Vacancy % by Category	
		Executive (U4-1)	Support (U5 down)	Executive	Support	Executive	Support
Permanent Secretary	4	2	2	1	0	50%	0%
Finance & administration department	40	26	14	13	7	50%	50%
Procurement Unit	5	3	2	0	0	0%	0%
Resource Centre	2	1	1	0	0	0%	0%
Policy Analysis Unit	3	3	0	2	0	67%	0%
Internal Audit	3	3	0	1	0	33%	0%
Planning and Quality Assurance Department	8	2	6	0	1	0%	17%
Sector Planning and Assurance Division	8	8	0	4	0	50%	0%
Quality Assurance Section	6	6	0	4		67%	0%
Directorate of Land Management	4	2	2	0	0	0%	0%
Surveys and Mapping Department	15	1	14	1	5	100%	36%
Mapping Division	50	15	35	3	19	20%	54%
Geodesy and Surveys Division	16	7	9	2	3	29%	33%
Land Sector Reform Coordination Unit	14	7	7	0	3	0%	43%
Land Registration Department	23	11	12	2	1	18%	8%
Land Administration Department	10	9	1	7	0	78%	0%
Valuation Division	36	11	25	7	11	64%	44%
Directorate of Physical Planning and Urban Development - Office of Director	4	2	2	1	0	50%	0%
Directorate of Physical Planning and Urban Development - Physical Planning	25	15	10	9	3	60%	30%
Department of Land Use Regulation and Compliance	22	19	3	11	0	58%	0%

Department of Urban Development	14	9	5	2	5	22%	100%
Directorate of Housing - Office of Director	4	2	2	2	0	100%	0%
Department of Housing and Estate Management	32	22	10	12	2	55%	20%
Human Settlement Department	8	3	5	2	2	67%	40%
Hosing Planning and Operations Section	13	12	1	6		50%	0%
Total	**369**	**201**	**168**	**92**	**62**	**46%**	**37%**

Annex F (b): Ministry of Local Government: Staff Vacancies

Organizational Unit	Total Approved	Numbers by Category		Vacancy Levels by Category (No's)		Vacancy % by Category	
		Executive (U4-1)	Support (U5 down)	Executive	Support	Executive	Support
Finance & Administration Department	55	27	14	8	6	30%	43%
Planning Division	12	8	4	1	1	13%	25%
Procurement Unit	3	3	0	1	0	33%	0%
Internal Audit	3	3	0	1		33%	0%
Directorate of Local Governments Inspection	4	2	2	0	0	0%	0%
Local Governments District Inspection Department	26	18	8	7	1	39%	13%
Local Governments Urban Inspection Department	25	19	6	6	0	32%	0%
Directorate of Local Governments Administration	4	2	2	0	0	0%	0%
Local Governments District Administration Department	14	10	4	2	1	20%	25%
Urban Administration Department	14	10	4	4	0	40%	0%
Local Councils Development Department	12	8	4	1	2	13%	50%
	172	**110**	**48**	**31**	**11**	**28%**	**23%**