AFRICAN DEVELOPMENT BANK GROUP

GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

November 2019

Development Financing flows to Uganda

Information gap as high as USD 645 million[1]

Uganda receives significant amounts of development financing from bilateral and multilateral Development Partners, and more recently from a growing number of private organisations and funds. Official Development Assistance reached 7.5% of GDP in 2017, corresponding to USD 2.0 billion. A slightly different measure, Country Programmable Aid that adjusts for transfers that are not directly influenced by the Ugandan Authorities, such as humanitarian aid, reached 6.2% of GDP in 2017. This note takes a deeper look at the flows that reach Uganda and considers how the disbursements as reported by OECD stack-up against those reported by the Ministry of Finance, Planning and Economic Development. The findings indicate that there is a reasonable correspondence between the Ministry's foreign assistance planning figures in the Annual Budget and what is reported as disbursements by the OECD. Reporting on actual aid transfers and expenditures reveals considerable information gaps. An estimated USD 645 million or 2.4% of GDP in 2017, was not reported as expended in the national public financial management systems, even though Development Partners report this as disbursed.

INTRODUCTION

This note analyses the development financing flows that are reported as disbursed by the OECD Development Assistant Committee (DAC) and compares these with figures reported by the Ugandan Ministry of Finance, Planning and Economic Development (MoFPED). MoFPED captures planned development financing flows from Development Partners through the Aid Management Platform (AMP), a web-based interface that Development Partners use to enter their planning figures by project for the current year and for five years forward. This is done as part of collecting data for the annual Medium-Term Expenditure Framework (MTEF). Although the AMP is not without its technical problems, externally funded planning data is collected, but is incomplete. Collection of data on Development Partners disbursements, transfers and expenditure could be significantly improved through a better flow of information from donors to MoFPED.

The move away from budget support to project funding has reduced MoFPED's control over the allocation of external funding while strengthening the cooperation between Development Partners and line ministries and increasing the latter's influence on policy and spending. With the shift away from the use of country Public Financial Management (PFM) systems, Development Partners have curtailed MoFPED's ability to control and account for how external flows are spent. This is problematic for several reasons: i) MoFPED needs to be fully informed about the use of funds that are spent in the country in order to make the best judgements over sector allocations, ii) duplication of systems adds to transaction costs, iii) the public sector's ability to absorb external development funding could be linked to reporting issues rather than implementation delays, iv) Government may be wrongfully criticised of under-funding some

[1] *Author:* Peter Engbo Rasmussen (p.rasmussen@afdb.org), Country Economist, Uganda Country Office, African Development Bank Group. Any opinions expressed reflect the opinions of the author and are not necessary those of the African Development Bank, its Board of Directors or the countries they represent. Many thanks to Maris Wanyera, Directorate of Debt and Cash Policy, Ministry of Finance, Planning and Economic Development for useful observations, and Jakob Severin Rauschendorfer, the International Growth Centre, for great comments to improve the note.

sectors, e.g. social sectors, while in fact the opposite may be the case if complete information on donor's contribution was available on a sectoral level. While the first two points are a concern, there is evidence to support the claims of both low absorption capacity related to development funds when it comes to infrastructure investments and underfunding of education. For example, the annual Debt Report (MoFPED, 2019b) provides information on 111 projects funded by foreign lending. Scrutinizing this data indicates that 52% of the projects are behind schedule, particularly projects in health, energy and roads.

The analysis finds that at the aggregate level, planned, i.e. budgeted, project transfers collected by MoFPED are fairly in line with what is reported as disbursed by Development Partners. When it comes to MoFPED's reporting on budget execution of the externally financed expenditures there are information discrepancies compared to what was reported as disbursed by Development Partners. Much of the financial flow information is collected through government PFM systems, and some through a government questionnaire for the off-budget transfers. For the year 2017, the findings indicate a reporting discrepancy of USD 645 million between government expenditures and reporting by OECD corresponding to 38.9% of Country Programmable Aid or 13.2% of Government expenditures.

The note first sets out the concepts of different aid flows, followed by development financing flows to Uganda as reported by the OECD. The note then examines the planning and expenditure figures on external financing collected by the Ugandan government and compares these with what is reported by the OECD. The final section draws some preliminary conclusions and suggests areas for further work.

Concepts of Development Financing Flows

The OECD uses different concepts for development assistance and is in the process of modernising and expanding the different statistical indicators used in measuring aid flows[2]. For the purpose of this note the focus will be on two key concepts: Official Development Assistance and Country Programmable Aid. The concepts are important as the former measure encompasses a larger set of aid flows than the latter.

Overseas Development Aid (ODA) includes all official development assistance provided by foreign official agencies (state and local government) that can be classified as concessional,[3] irrespective of whether the assistance is provided in the form of grants or soft loans. Grants have 100% grant element, while concessional loans require a grant element of at least 25%[4] to be classified as soft loans. ODA includes everything from grants, concessional loans, debt relief, humanitarian aid, development research, and administration costs within donor countries.

Country Programmable Aid (CPA) consists of a subset of the aid flows captured in ODA. CPA aims to only account for foreign financial assistance, which is influenced, and therefore allocated by the recipient country. In other words, the recipient country has a greater say on where the funds are spent. CPA excludes the more unpredictable flows such as humanitarian aid, debt relief, and flows that do not directly reach the recipient country such as administration costs of donors, spending on development awareness, research and refugee spending in donor countries at home. Flows that are usually not discussed such as food aid, aid from local governments, core funding to NGO's, aid through secondary agencies, equity investments, and aid that is not allocable by country are also not included. Finally, loan repayments are not netted out as these are seldomly factored into aid allocation decisions. The CPA flows are therefore those for which the donor is mutually accountable[5] to the Government for delivering as programmed. CPA flows from multilaterals to recipient countries fall directly under this definition.

Although the CPA definition is more closely aligned with foreign financial assistance that the country can directly influence, it is not a perfect measure. Technical co-operation, which often does not align with country priorities and procedures, is included in CPA. The CPA also

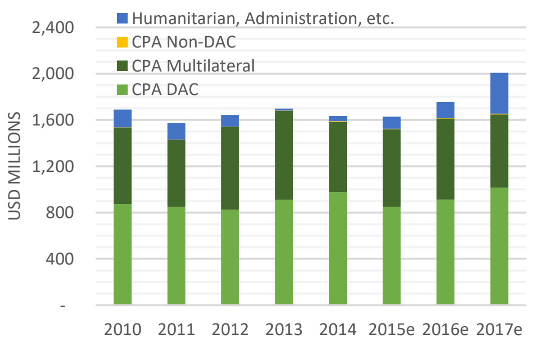
[2] www.oecd.org/dac/financing-sustainable-development/development-finance-standards/modernisation-dac-statistical-system.htm

[3] www.oecd.org/dac/financing-sustainable-development/concessional-sovereign-loans.htm

[4] Starting with data from 2018, the definition of concessional lending will require aid flows to be i) administered with the promotion of the economic development and welfare of developing countries as its main objective, and ii) grant element of between 10 and 45% depending on the classification of recipient country as a LDC, LMIC, or UMIC. For Uganda, an LDC, the grant element will need to achieve at least 45% for bilateral donors and 10% for multilateral donors.

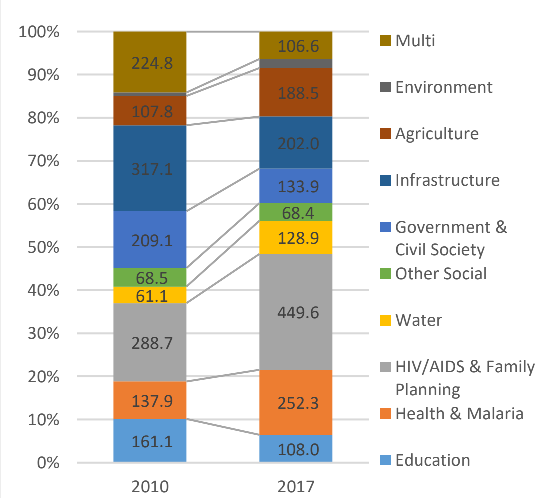
[5] Paris Declaration on Aid Effectiveness (2005), para.49.

Figure 1: Country Programmable Aid, 2010-2017, (USD millions)



SOURCE: OECD DAC DATABASE.

Figure 2: Distribution of CPA by sectors in 2010 and 2017 (pct. & USD millions).



SOURCE: OECD DAC DATABASE.

includes project-specific donor contracts with NGOs, which often operate outside of the government systems. Humanitarian and food aid that is not reported in the CPA could on the other hand be relevant to include in the context of Uganda given the large influx of refugees and flows that are expected to continue for an extended period.

Furthermore, China does not report its development financing data to the OECD and flows from China are therefore not included in the non-DAC countries data. As these flows are considerable, CPA will underestimate the total development financing flows that reach Uganda.

Aid Flows reaching Uganda

According to the latest data available from the OECD, Uganda received USD 2,008.1 million in ODA in 2017. Private organisations contributed an additional USD 92.3 million. A considerable amount, USD 353.3 million (est.), was used by official development agencies for mainly humanitarian purposes, but also administration. Humanitarian aid was sizeable in 2017 due to a large influx of refugees from South Sudan, with development agencies stepping up efforts to support the refugees.

Funding disbursed to Uganda and classified as programmable aid amounted to USD 1,654.8 million (est.) in 2017. The CPA corresponded to 6.2% of GDP or 33.8% of total government outlays (expenses and investment in non-financial assets). Based on survey data, projections for 2018 and 2019 are available, showing a further increase to USD 1,860.9 million and USD 1,868.4 million, respectively.

Over the period 2010 to 2017, the trend in CPA disbursements has been upward (Figure 1). Humanitarian aid rose significantly between 2015 and 2017. The ratio of aid flows between bilateral and multilateral is 5:3, while non-DAC country flows are essentially non-existent.

Aid flows to Uganda captured under CPA are skewed towards the social sectors, which have increased from 45% to 60% of total external flows between 2010 and 2017 (Figure 2). Key areas within the social sectors are support to HIV/AIDS and malaria interventions. Non-social sector investments are mainly in roads, energy, and agriculture. Infrastructure and support to Government & Civil Society have each reduced by more than a third over the period. Budget support that has been placed under the heading "multi[6]", has reduced by more than half over the period.

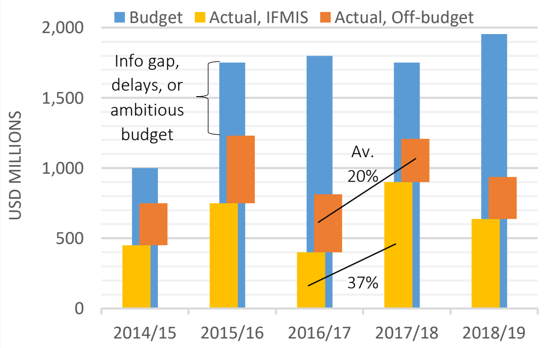
Contrasting Official Aid Figures by Donors with the Government Figures

We next consider how the donor disbursement numbers compare to what the Ugandan authorities report in their external budget planning figures and expenditure reporting. MoFPED collects planning data on donor financing as part of the annual Medium-Term Expenditure Framework (MTEF) process. The data is collected through the Aid Management Platform (AMP).

In 2016/17, MTEF data shows that MoFPED was projecting USD 1.7 billion from Development Partners (MoFPED, 2017). This amount increased to USD 2.2 billion in 2017/18. MTEF data also includes data from China. Adjusting for projected Chinese project flows, the

[6] "Multi" refers to projects that support more than one sector, such as rural and urban development projects.

Figure 3: Budgeted loans and grants, and actual reported loans and grants (USD millions).



SOURCE: DEBT REPORT (MOFPED, 2019B).

planned flows were USD 1.2 billion and USD 1.3 billion, respectively. Although these figures are not directly comparable to OECD CPA due to the data reporting period[7], the MTEF planning figures fall short of actual disbursements by USD 3-400 million.

The Annual Debt Report also provides information on the planned/budgeted amounts that government projected from Development Partners to support the Annual Budget (MoFPED, 2019b). According to the data, the Government budgeted USD 1.8 billion in 2016/17, falling slightly to USD 1.75 billion in 2017/18 (Figure 3). For comparison with OECD CPA, government was planning with USD 1,775 million[8] in 2017[9]. The budgeted figures have been revised downward as compared to the MTEF, but this could be because MoFPED received updated information on project planning figures prior to launching the figures in the Annual National Budget[10].

Turning to externally financed expenditures, MoFPED collects data on two fronts. Donor transfers that flow through the treasury or are closely aligned with government operations, such as projects funded by loans, are captured in the Integrated Financial Management Information System (IFMIS). Data is regularly captured as the Accountant General is involved in the clearance and recording of disbursements. Operations not closely aligned with treasury operations, i.e. off-budget transfers and disbursements, are captured through other means, such as by donors submitting disbursement reports. However, these will tend to be underreported as government agencies are not involved in the control of funds, as transfers and reporting is done directly between donor and project or contractor.

The data captured by IFMIS shows that actual expenditures fall short of the budget. In 2016/17, the actual recorded expenditures were about 22% of the budget, increasing to 51% of the budget in 2017/18. Averaging over the two years indicates that a little over a third, USD 650 million, of planned funding gets recorded in IFMIS.

MoFPED also collects the off-budget data to explain how the rest of the external funding from Development Partners is used. In 2016/17, MoFPED recorded USD 413.5 million in off-budget transfers, falling to USD 307.3 million in 2017/18 (Table 1). Averaging the off-budget numbers over two fiscal years, indicates that USD 360 million, about a fifth (Figure 3), was allocated to various sectors and projects in 2017.

Comparing the planned external financing with the actual disbursed (IFMIS and off-budget) indicates a large gap (Figure 3). In 2016/17 the gap was USD 987 million falling to USD 543 million in 2017/18. Averaging total spending over the two years amounts to USD 1,010 million, implying an "implementation" gap of USD 765 million in 2017 (43% of the budget). The gap can be attributed to lack of absorption capacity,

Table 1: Off-budget Disbursements reported by MoFPED (USD millions).

Sectors (USD millions)	*2015/16*	*2016/17*	*2017/18*
Accountability	106.7	71.6	48.3
Agriculture			11.5
Dem., Gov & Conflict	21.3	19.4	
Economic Growth	8.9	7.3	5.4
Education	56.2	53.7	18.4
Energy & Minerals	21.6	17.0	13.0
Health	153.7	145.7	113.3
JLOS	16.7	2.4	4.5
Multisector	26.6	31.4	10.8
Private Sector Dev	2.9	2.0	3.3
Public Sector Mgt			12.2
Security	2.8		
Social Development	29.1	33.4	46.0
Tourism, Trade & Ind.		0.6	
Water & Environment	26.7	25.5	20.6
Works & Transport	6.4	4.1	
Total	**480.2**	**413.5**	**307.3**

Source: Debt Report (MoFPED, 2019b).

[7] For comparability between fiscal year and calendar year, the average of two fiscal years is used as an estimate of the calendar year.
[8] See footnote 7.
[9] Note that this amount would also include funding from China, which cannot be disaggregated.
[10] *Caveat:* Although the planning projections seem to stack-up, the projections that MoFPED is being provided may not relate 1 to 1 at the project level with what the Development Partners are disbursing and reporting to OECD. Not all Development Partners have provided data through MoFPED, while complete information is assumed to be available in OECD reporting. Chinese development flows are not included in the OECD data. There is with all likelihood a data mismatch, even though at the aggregate level numbers seem to stack-up.

overambitious budgeting, or information not reported. Furthermore, the gap is persistent.

How do the externally disbursed funds reported by MoFPED compare to OECD reported disbursements? According to OECD, total CPA in 2017 was USD 1,655 million. This implies a balance of USD 645 million that has not been captured in the reports issued by MoFPED, which reported average spending of USD 1,010 million. Unreported development flows reached 13.2% of actual total Government outlays in 2017, marginal above 13.1% for 2016.

Key Findings and Recommendations

1. At the planning level, MoFPED collects projected donor disbursements as part of the MTEF process. These projections, with additional information collected and based on disbursement history, are subsequently adjusted as part of the process of preparing the annual budget for the following year.

2. At the implementation stage of the budget, donor disbursements are captured in IFMIS or as off-budget. However, not all donor disbursements are reported. In 2017, disbursements not captured by the government, but included in donor figures amounted USD 645 million from USD 596 million in 2016. As CPA is already adjusted for humanitarian aid and administration costs by Development Partners these cannot explain the gap. But some of the uncaptured information could be linked to technical assistance. MoFPED (2019) reports that TA and other experts received USD 46.6 million in 2016 increasing to USD 56.7 million in 2017. Adjusting for these figures still leaves large uncaptured development flows of USD 550 to 588 million that we don't know how are allocated and spent. These large flows amount to the combined wage and non-wage recurrent costs of education in Uganda.

Recommendation one: Donors should consider using country PFM systems and move development financing flows on-budget. This would strengthen country systems, increase transparency and accountability and build local capacity.

Recommendation two: As there has been a shift towards increased project support there is a need for Development Partners to strengthen their efforts to report aid transfers to MoFPED. In particular for off-budget transfers that are not well captured by government systems. As development financing flows are often provided in tranches, quarterly reporting would be enough. Quarterly reporting could be provided using aggregate project information printouts from the Development Partners accounts systems. This way of reporting should be institutionalised within the development agencies local offices to ensure continuity.

Recommendation three: There is also scope to improve the usability and functionality of the Aid Management Platform, operated by MoFPED, to capture the off-budget information. The latest information from MoFPED is that some upgrades are currently being implemented which will improve accessibility to AMP. Continuous training of development partners in the use of the AMP is needed due to annual staff turnover.

Further work to shed additional light on information gaps

Based on the analysis presented in this brief, four areas for further research are suggested:

- A deeper analysis of CPA to Uganda to identify how much technical assistance and other funds are beyond the influence of Uganda and are "co-mingled" in the OECD CPA data. This analysis should also include Chinese flows to fully ascertain the total development financing envelope that reaches Uganda.
- At the project level a thorough analysis of the budgeting and execution process would uncover reasons for the consistent information gaps. Energy and transportation projects, for example, have significant implementation delays most often in the start-up phase and before construction begins. These delays are often due to issues of right of way and timely compensation to people affected by relocation. Disbursements thus happen later than planned. In addition, there could be elements of overly ambitious budgeting on the part of implementing agencies, development partners and contractors.
- Further analysis to explain the information gap and allocation to the sectors will improve information on how the externally financed budget is utilised. This will give an improved sense of where development funding is being spent and provide better information on sector trends.
- A question that begs itself for further analysis is related to the unpacking of the Development Partners support to the social sectors. More than half of this support is tied up in health interventions (mainly HIV/AIDS and Malaria interventions), followed by education. Given the importance of education, which has been curtailed, there is scope to discuss reallocation of

some of the social spending to increase weight on education.

References

MoFPED (2017), Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for Financial Year 2016/17 and the Medium-Term Debt Management Strategy 2017/18–2020/21.

MoFPED (2018a), Background to the Budget Fiscal Year 2018/19. Ministry of Finance, Planning and Economic Development.

MoFPED (2018b), Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for Financial Year 2017/18. Ministry of Finance, Planning and Economic Development.

MoFPED (2019a), Background to the Budget Fiscal Year 2019/18. Ministry of Finance, Planning and Economic Development.

MoFPED (2019b), Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for Financial Year 2018/19. Ministry of Finance, Planning and Economic Development.

Databases

Budget Library, https://www.budget.go.ug/

Aid Management Platform, http://154.72.196.89/portal/

OECD International Development Statistics, http://www.oecd.org/dac/stats/idsonline.htm.

Data on the OECD platform comes from two sources, an OECD survey, and the creditor reporting system (CRS), which requires donors to enter project-by-project data.

- o o 0 o o –

Country Programmable Aid, Disbursements, 2010-2019 (USD millions).

	2010	*2011*	*2012*	*2013*	*2014*	*2015e*	*2016e*	*2017e*	*2018p*	*2019p*
Overseas Development Aid										
Official Donors, Total	1,690.1	1,572.9	1,642.5	1,697.1	1,633.7	1,628.3	1,756.9	2,008.1		
o/w Humanitarian, Administration, etc.	153.9	142.5	98.5	16.5	42.9	104.8	138.7	353.3		
Private Donors, Total	22.3	38.8	32.1	38.2	51.3	43.6	48.7	92.3		
Country Programmable Aid										
Official Donors, Total	1,536.2	1,430.4	1,544.0	1,680.6	1,590.8	1,523.5	1,618.2	1,654.8	1,860.9	1,868.4
DAC Countries, Total	872.9	850.1	823.4	909.6	977.5	849.7	912.5	1,016.1		
Australia	1.8	10.5	7.1	5.8	3.1	3.3	1.3	7.2		
Austria	12.3	13.4	8.6	15.6	11.3	9.5	10.1	9.6		
Belgium	19.8	8.9	16.4	11.4	17.8	12.9	12.5	12.4		
Denmark	69.3	56.8	56.7	56.0	51.3	29.6	41.9	46.5		
France	3.7	3.2	1.2	5.1	9.0	10.1	13.8	50.7		
Germany	30.2	45.5	36.0	33.3	37.1	42.3	36.9	56.4		
Iceland	3.1	3.1	3.0	4.2	3.3	3.4	4.7	5.0		
Ireland	45.0	46.3	23.1	23.6	29.1	17.4	16.2	18.2		
Japan	54.9	42.6	58.7	43.9	77.4	65.6	54.2	48.5		
Korea	1.8	2.2	3.8	11.4	12.4	23.2	27.7	29.2		
Netherlands	35.6	14.7	25.7	36.2	21.9	14.7	17.2	19.1		
Norway	59.6	57.9	44.3	54.5	54.5	37.2	34.3	17.1		
Sweden	35.7	34.5	25.1	33.3	24.0	34.1	39.4	47.1		
United Kingdom	178.5	140.7	149.0	150.8	165.1	160.6	112.0	96.9		
United States	306.2	357.3	355.6	418.4	452.1	378.8	485.2	544.4		
Other DAC Countries	15.3	12.5	9.3	6.3	8.1	7.1	5.3	7.8		
Multilaterals, Total	662.4	579.4	718.7	768.0	607.7	670.7	698.5	630.6		
EU Institutions	105.7	157.5	128.2	82.5	125.7	87.5	51.3	67.7		
African Development Fund	101.6	140.1	147.7	154.4	122.5	112.3	128.6	74.9		
Islamic Development Bank	1.0	0.4	1.0	2.4	9.7	16.8	29.6	17.5		
IFAD	19.5	17.1	22.6	28.4	15.8	15.9	12.8	17.8		
UNDP	3.4	2.8	7.5	8.2	10.1	7.7	5.9	5.4		
UNICEF	19.9	22.7	23.4	21.0	22.6	20.1	20.9	22.8		
International Development Association	327.7	176.9	196.9	364.2	176.5	224.4	177.1	260.1		
Global Alliance for Vaccines and Immunization	8.0	12.5	12.2	30.9	35.6	41.8	52.0	30.2		
Global Fund	57.2	26.0	148.5	59.7	57.1	110.9	195.6	117.3		
Other multilaterals	18.5	23.3	30.7	16.4	32.3	33.2	24.8	16.9		
Non-DAC Countries, Total	0.9	0.9	2.0	3.0	5.6	3.2	7.2	8.0		
Kuwait		-		1.1	1.8	1.4	5.9	5.4		
Other non-DAC Countries	0.9	0.9	2.0	1.9	3.8	1.8	1.4	2.6		
Private Donors, Total	22.3	38.1	31.5	39.6	50.8	45.0	48.5	87.7		
Bill & Melinda Gates Foundation	22.3	38.1	31.5	32.6	38.7	35.4	45.6	34.9		
MasterCard Foundation								33.9		
Other private donors	-	-	-	7.0	12.1	9.6	2.8	18.9		

Notes: e=estimate, p=projection. *Source:* Data extracted on 06 Sep 2019 13:45 UTC (GMT) from OECD.Stat.