FOREWORD

Through the Parliamentary Strategic Plan (2014-2018), the Parliamentary Commission has a Vision of a “Transformational, Vibrant, Independent and People-centered Parliament” and a Mission “To achieve improved accountability, representation, constitutional democracy, rule of law and sustainable national development of Uganda”

This Budget Handbook is expected to serve as a reference material and to facilitate the work of Parliament and its Committees as they scrutinize the Budget policy issues. The information contained in this Handbook is not exhaustive, however, it will be an invaluable tool on the key concepts of budgeting and the budget process for Members of Parliament, Parliamentary Budget Officers and other technical staff of Parliament as they discuss the budget proposals and as they perform their oversight role over the Executive.

The design of this Handbook recognizes the fact that analysis of the budgeting process is an integral part of the broader macroeconomic environment and the fiduciary architecture which need to be understood as a basis for enhancing Parliament’s oversight and legislative roles over the budget.

It is my pleasure to provide a forward to the budgeting Handbook and to appreciate the Staff members of the Parliamentary Budget Office for their continued technical support to Parliament and its Committee which has greatly enhanced the quality of debate on the Budget and Economy. It is my belief that this toolkit will be regularly consulted by the Members of Parliament and Staff members as they execute their mandate and functions during the analysis of the National and Sectoral budgets.

Jane L. Kibirige (Mrs.)
Clerk to Parliament
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## GLOSSARY

**Definitions of Key Concepts**

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<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>Fiscal accountability refers to the responsibility of government to account for the way public funds are collected, managed and spent.</td>
</tr>
<tr>
<td>Accounting Officer</td>
<td>(a) Designated or appointed in writing, as accounting officer, by the secretary to the Treasury, to be responsible for a vote or (b) Appointed as accounting officer under an Act of Parliament or under an instrument of appointment made under an Act of Parliament, to be responsible for a vote.</td>
</tr>
<tr>
<td>Allocation</td>
<td>Money earmarked for a particular purpose in the budget.</td>
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<tr>
<td>Appropriation</td>
<td>(sometimes called an “<em>allocation</em>”) refers to the legal grant to the executive by the legislature to spend public funds. Appropriation legislation varies in terms of its details; some provide funds for an entire department or vote, while others provide funds for specific programs. Typically the term “allocation” will be in reference to appropriated funds dedicated to a particular purpose (for instance, the allocation for school building in the education budget).</td>
</tr>
<tr>
<td>Appropriation Act</td>
<td>The Act passed in accordance with Article 156 of the Constitution, which authorizes expenditure of public monies for a financial year.</td>
</tr>
<tr>
<td>Budget</td>
<td>Means the Government Plan of Revenue and Expenditure for a financial year.</td>
</tr>
<tr>
<td>Budget inputs</td>
<td>Allocations of money to particular uses (e.g., programs or activities) in the budget. This money is for spending on the delivery of social services to the public (this is in way of programs).</td>
</tr>
<tr>
<td>Budget outputs</td>
<td>Public goods and services that are provided by Government through the use of budget inputs.</td>
</tr>
<tr>
<td>Budget Outcomes</td>
<td>The ultimate impact on the broader society or economy as the result of budget allocations to a particular program (or sector).</td>
</tr>
<tr>
<td>Budget Period</td>
<td>Commonly refers to the period in which a particular budget is implemented. In the case of Uganda, it is the period of twelve months from July to June.</td>
</tr>
<tr>
<td>Budget System</td>
<td>A budget System consists of the total budget process beginning with drafting, through legislation, implementation to auditing.</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>Means any expenditure for the creation or acquisition of a fixed asset, inventory, and other valuable physical stock</td>
</tr>
<tr>
<td>Consolidated Fund</td>
<td>means the consolidated Fund of Uganda established under Article 153 of the Constitution or the bank account into which Government funds are paid and withdrawn.</td>
</tr>
<tr>
<td>Classified expenditure</td>
<td>Means the expenses and commitments incurred by an authorized agency for the collection and dissemination of information related to national security interests and includes the cost of procurement and maintenance of related assets.</td>
</tr>
<tr>
<td>Debt</td>
<td>Government debt is the outstanding amount that the government owes to private lenders at a given point in time. Governments borrow when they run deficits, but reduce outstanding debt when they run surpluses. Thus, debt</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>Fiscal Year (FY)</td>
<td>This is a 12-month government’s accounting period. It frequently does not coincide with the calendar year. The fiscal year is named after the calendar year in which it ends.</td>
</tr>
<tr>
<td>Government</td>
<td>means the central Government</td>
</tr>
<tr>
<td>Government Debt</td>
<td>means a financial claim on Government that requires payment by Government, of principal or the principal and the interest, to a creditor.</td>
</tr>
<tr>
<td>GDP</td>
<td>(Gross Domestic Product): the total value of final goods and services produced by residents in a country during a calendar year. Economic growth is measured by the change in GDP from year to year.</td>
</tr>
<tr>
<td>Grants</td>
<td>Assistance from a cooperating partner for various development needs and not repayable. It has less stringent conditionality compared to a loan.</td>
</tr>
<tr>
<td>Inflation</td>
<td>(consumer and producer): Is the persistent raise in the general price level of goods and services measure over a given period of time, usually monthly or annually.</td>
</tr>
</tbody>
</table>
| Inventories                 | (a) Assets in the form of materials or supplies to be consumed in the production process  
(b) Assets in the form of materials or supplies to be consumed or distributed in the rendering of services; and  
(c) Assets held for sale or distribution in the ordinary course of operation |
| Macro-economics             | This term refers to the part of economics that studies the economy as a whole and particularly topics such as gross production, unemployment, inflation, and business cycle. |
| Medium Term Expenditure     | This is a rolling plan for allocating (government and donor) amongst various sectors on the basis of their achievement, in Uganda it is currently tied to duration or timeframe for National Development Plan which is five years. |
| Nominal Value               | The nominal value of an item is the given value which is not adjusted for effects of inflation while the real value is the adjusted value after taking into account inflation. |
| Projections                 | These are estimates of future revenues and expenditures. In multi-year budgets, projections cover outer years of the period under consideration and they are based on technical and economic assumptions. Budgets will often represent actual expenditure and revenue from past years. Projections become more uncertain the further into the future they go. Usually rely on historical behavior of the series under consideration. |
| PRSP                        | Poverty Reduction Strategy Paper (PRSP): An IMF and World Bank driven initiative developed as a nation’s medium term overall policy framework for national planning and interventions for development and poverty reductions. |
| Public Corporation          | (a) An authority established by an Act of Parliament other than a local government, which receives a contribution from public funds, or the operations of which may, under the Act establishing it or any Act relating to it, impose or create a liability upon public funds; and  
(b) Any public body which in a financial year receives any income from public |
<table>
<thead>
<tr>
<th>Term</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Public debt</td>
<td>Public debt includes the interest on that debt, sinking fund payments in respect of that debt and the costs, charges and expenses incidental to the management of that debt.</td>
</tr>
<tr>
<td>Recurrent Expenditure</td>
<td>All expenditures that relates to regular or periodic acquisition of materials and services. e.g. Office Stationery, Fuel &amp; lubricants, payment of utility bills etc.</td>
</tr>
<tr>
<td>Resources</td>
<td>This term is often used in budgetary sense to mean the amount of funds available to the government to spend. Resources generally will come either from revenues or borrowing.</td>
</tr>
<tr>
<td>Revenue</td>
<td>The combination of cash and other current assets that government receives but does not represent expenditure recoveries such as re-imbursements nor increases any liability. The most common sources of public revenue are taxes, licenses, fees and investment earnings.</td>
</tr>
<tr>
<td>Sector</td>
<td>A group of institutions or votes that have common functions, objectives and mandates;</td>
</tr>
<tr>
<td>Statutory expenditure</td>
<td>Expenditure charged on the consolidated Fund by the Constitution or by an Act of Parliament, but does not include the expenditure of moneys appropriated or granted by an Appropriation Act or a Supplementary Appropriation Act.</td>
</tr>
<tr>
<td>Subvention</td>
<td>The appropriation of funds to a vote for onward transfer to an entity which is not a vote;</td>
</tr>
<tr>
<td>Treasury memoranda</td>
<td>An action reports by the minister detailing the actions taken on the recommendations of Parliament arising out of the report of the Auditor General</td>
</tr>
<tr>
<td>Virement</td>
<td>The reallocation of funds within the budget of a vote, from a budget line to another budget line.</td>
</tr>
<tr>
<td>Vote on Account</td>
<td>Means a grant made in advance by the Parliament, in respect of the estimated expenditure for a part of new financial year, pending the completion of the procedure relating to the voting of the demand for grants and the passing of the Appropriation Act.</td>
</tr>
<tr>
<td>Votes</td>
<td>Means an entity for which an appropriation is made by an Appropriation Act or Supplementary Appropriation Act.</td>
</tr>
<tr>
<td>Zero-Based Budgeting</td>
<td>A method of budgeting in which all budget line items are imitated to zero in every new budget period. This way all expenditure items a new period must be justified and allowed to compete with others.</td>
</tr>
</tbody>
</table>
CHAPTER 1: INTRODUCTION

1.1 Introduction to the Handbook

This handbook is a practical toolkit on the key economic, budgeting and budget processing concepts utilized on a daily basis by Members of Parliament, Parliamentary Budget Officers and other staff members who support Parliament and its Committees in scrutinizing the Budget and in performing the oversight role of Parliament. This is the revised edition of an earlier budget handbook which was produced in the 8th Parliament. The revision was necessary to capture the budget and financial reforms that were introduced during the 9th Parliament.

The budget process is an integral part of the broader macroeconomic environment and fiduciary architecture which needs to be understood by Members of Parliament and other key stakeholders with a view of enhancing Parliament’s oversight and legislative roles over the budget. Therefore, Parliament as an arm of Government that oversees the Executive needs to build analytical capacities in public policy processing and budget management.

1.2 Objectives of the Handbook

Among other things, this handbook attempts to:

- Introduce key budgeting concepts,
- Present a checklist of critical issues that are vital for budget analysis,
- Present simple and clear procedures in the budget process, including their respective timing and,
- Introduce the linkages between the broader macroeconomic policy and the budget.

1.3 Structure of the Handbook

This budget handbook has Six Chapters. This introduction is followed by a brief introduction of the Parliamentary Budget Office and the third chapter which gives some explanations and components of the National Budget. The fourth chapter outlines the National Budget Process in Uganda and the respective roles of the key players. The fifth chapter deals with the Principles of Budgeting and some basic tools of Budget analysis. The Sixth and last chapter introduced the Macroeconomic policy and its linkage to the National Budget.
CHAPTER 2: INTRODUCTION TO THE PARLIAMENTARY BUDGET OFFICE

2.0 Introduction

The Parliamentary Budget Office (PBO) was established by the Budget Act, 2001 and it came into effect on 1st July, 2001. The object of the Budget Act is to “Provide for and regulate the Budgetary Processes for Systematic and Efficient Budgetary Processes and other Matters connected therewith”. Prior to the enactment of the Budget Act, Parliament did not play an active role in the budget formulation process; however, Parliament would approve the budget as required by Articles 155 and 156 of the Constitution of the Republic of Uganda. It had become apparent to the Members of Parliament that the information on budget-related matters provided to Parliament was inadequate and MPs were kept ignorant on issues such as local resource revenue, foreign inflows, national expenditure and macroeconomic statistics, hence Parliament was a mere “rubber stamp” (The World Bank, 2008).

The Budget Act mandates early and continuous participation of Parliament in the Budget process by setting a definite timelines for exchanging vital economic and budget information between the executive and the legislature. Parliament ensures that the budget process is participatory and transparent in such a way that Government and its agents are made accountable for public resources to realize value for money. Parliament scrutinizes Government policies and monitors public programmes to ensure they are administered efficiently, effectively and in a manner that is consistent with legislative intent.

PBO was established with the objective of creating technical capacity within Parliament to interpret National Budget/Economic data and to provide Parliament and its Committees with objective, timely and independent analysis needed for national economic and budgetary legislative decisions. The primary role of PBO is to provide professional support for Parliament to effectively deal with the massive information and data involved in the budget process.

2.1 Functions of PBO in the Budget Process

The Mandate of PBO is derived from sections 20 and 21 of the Budget Act 2001, specifically:
• Section 20 of the Budget Act 2001 sets up the PBO with staff who are budget and economic experts; and
• Section 21 further sets out functions of PBO as follows:
  → Provide budget related information to all Committees in relation to their jurisdiction;
  → Submit reports on, but not limited to, economic forecasts, budget projections and options for reducing the budget deficit;
  → Identify and recommend on Bills that provide an increase or decrease in revenue and the Budget;
  → Prepare analytical studies of specific subjects such as financial risks posed by Government sponsored enterprises and financial policy
  → Generally give advice to Parliament and its Committees on the Budget and National Economy.

2.2 PBO Organizational Context

As a department under the Parliamentary Affairs Directorate of the Parliamentary Service, PBO is headed by a Director and is operating with two divisions, namely the Fiscal and the Economic analysis divisions each headed by an Assistant Director. There are 6 Sections and each is headed by a Principal Economist. PBO Staff comprise economists with analytical expertise in Macroeconomic, Fiscal, Financial, Real and External payments policies (refer to Figure 1).

PBO’s plans and operations are consistent with the Parliamentary Strategic Plan (PSP) (2014 – 2018). Through the PSP, the Parliamentary Commission has a Vision “Transformational Vibrant, Independent and People-centered Parliament” and a Mission “To achieve improved accountability, representation, constitutional democracy, rule of law and sustainable national development of Uganda”. The Parliamentary Commission’s strategic objectives include:

(a) Strengthened institutional capacity of Parliament to undertake its constitutional mandate effectively and efficiently;
(b) Increased public involvement and participation in Parliamentary business;
(c) Strengthened Parliamentary accountability through effective monitoring and evaluation system for tracking institutional performance outcomes;
(d) Improved Parliament’s participation and contribution to the achievement of equitable and sustainable development;
(e) Improved Parliament’s participation in international engagements to promote Uganda’s development potentials;
(f) Expanded Parliament’s physical space for improved efficiency and productivity
2.2.1 The Parliamentary Budget Office Strategic Plan

PBO was established as a support and advisory office on issues related to the National Economy and the Budget and its role does not conflict with that of other Departments. The existence of PBO for the last 15 years has contributed to the improved participation level and oversight role of Parliament in the budget process.

The Vision and Mission Statements of PBO have been developed with Parliamentary strategic objectives in mind. PBO carefully aligned its strategic plan along the PSP objectives (a), (b), (c) and (d).

2.2.2 The Vision

“The most reliable support office in the scrutiny of economic policy, national budget and external audit at Parliament”.

2.2.3 The Mission

“To provide independent, objective and timely technical advice to Parliament for informed and effective legislative decisions”.

2.2.4 The Strategic Objectives of PBO

The Strategic Objectives of PBO are guided and aligned to the broad objectives of the Parliamentary Strategic Plan (2014 – 2018) and these include:

(a) To build and strengthen the capacity of PBO to effectively deliver on its mandate.
(b) To strengthen efficiency in Parliamentary authorizations and approvals for economic and social development.
(c) To build and strengthen the capacity of Parliament in budget scrutiny and oversight as well as providing alternative national, economic and social plans and programs.
(d) To develop viable domestic, regional and international network for research and policy.
Figure 1: PBO ORGANISATIONAL STRUCTURE

Director/PBO

Asst. Director/ Economic Analysis
- Principal Economist/ Real & Financial
  - Senior Economist/ Real & Financial
    - Economist/Real
    - Economist/Financial
  - Economist/External & Fiscal

Asst Director/ Fiscal Affairs
- Principal Economist/ External & Fiscal
  - Senior Economist/ External & Fiscal
    - Economist/External & Fiscal
  - Economist/External & Fiscal

- Principal Economist/ Financial Programming, Monitoring & Accountability
  - Senior Economist/ Financial Programming, M & A
    - Economist/Financial Programming
    - Economist/Monitoring & Accountability

- Principal Economist/ Revenue & Tax Policy
  - Senior Economist/ Tax, Revenue & NTR
    - Economist/Tax, Revenue & NTR
    - Economist/Expenditure (C & LG)

- Principal Economist/ Local Govt Exp.
  - Senior Economist/ Local Govt Exp.
    - Economist/Local Govt Exp.
    - Economist/Exp.

- Principal Economist/ Central Govt.
  - Senior Economist/ Expenditure (C & LG)
    - Economist/Expenditure (C & LG)
2.2.5 Some Products of PBO

PBO is mandated to support Parliament and its Committees by providing analytical papers that facilitate Parliamentary approval and legislative decision making on the following submissions to Parliament: Charter of Fiscal Responsibility, Bills Costing, Budget Framework Paper, Ministerial Policy Statements, Appropriation bill, Supplementary expenditures, Budget speech, Compliance certificates, Multi-year commitments, Contingency Fund management, Petroleum Fund management, Utilization of grants and Treasury memoranda.

PBO continuously and proactively provides technical support, advice and information to Members of Parliament, Committees and Parliament in the following areas:-

(a) Analytical report on the performance of External and Financial Sectors.


(b) Analytical report on the performance of Real and Monetary Sectors.

PBO provides information on Monetary policy, Employment, Gross Domestic Product, Aggregate Demand & Supply, Monetary aggregates, Asset prices, Interest rates, Inflation, Foreign exchange rates, Potential Output, Total Factor productivity, Consumption, Savings and Investment, Capital Stock, State Owned Enterprises(SOE) and Public Private Partnerships (PPPs).

(c) Analytical report on Fiscal operations and the Central and Local Government

PBO provides information on Budget Releases and Expenditure performance, Resource utilization, Central and Local Government performance, Government Consumption, Investment,
Lending and Borrowing, Fiscal Deficit, Deficit financing and Fiscal multipliers and Fiscal sustainability.

(d) **Analytical report on Tax, Revenue and Grants**

PBO provides information on Government tax measures, Tax Bills and Revenue Policy variables; Tax rates, Tax Incidence and Elasticities, Tax Effort, Revenue mobilisation, Capital gains, Direct and Indirect Taxes, International Trade Taxes, Personal Income Tax, Petroleum Revenue, Non-Tax Revenue, AIA and Grants and other revenues and transfers.

### 2.2.6 The PBO Values

PBO is committed through the Parliamentary Commission to the following Values:

- Team work
- Professionalism
- Objectivity and Impartiality
- Accountability and Transparency
- Ethics and Integrity
- Pro-activeness
- Equity and Equality
- Collaboration

In line with the above values, PBO works as a team to provide professional, timely and impartial advice to Parliament in support of its mission. PBO also has collaboration with Global and Regional PBOs and International training Institutions, development and research organizations for enhanced professional capacity to better support the oversight role of Parliament. PBO commits to set clear standards of services that meet client’s expectations; monitor and review the standards from time to time. With a commitment to these values, PBO strives to effectively deliver on its mandate guided by the PBO Strategic Plan (2015 – 2018).
CHAPTER 3: INTRODUCTION TO THE NATIONAL BUDGET

3.1 Introduction

This chapter introduces the budget and some related core concepts and terminology. It presents some key aspects of the National budget, including the legal and the traditional nomenclature of economics. The chapter attempts to highlight the basic definitions, purpose and the key components of a national budget.

3.2 Defining the Budget

The word *budget* was developed from *bougette* or ‘small bag’ in French. The word spread to England, where it came to designate the leather bag in which ministers of the crown carried financial plans to Parliament, and eventually it became synonymous with its contents. In most countries, the term budget refers to the annual expenditure and revenue plans tables in Parliament for approval. According to Stourm (1971), a budget is a document which forecasts and authorised the annual receipts and expenditures of the State.

It has now become acceptable that a budget is an official statement from a government about how much resources the government plans to collect and spend during a particular period of time to achieve desired priority objectives. According to the Ugandan Budget Act, 2001, the Budget is defined as “the process by which Government sets levels to efficiently collect revenue and allocate the spending of resources among all sectors to meet national objectives”. And according to the Public Finance Management Act, 2015, a budget is the Government plan of revenue and expenditure for a financial year.

In essence, a budget is a financial plan showing how revenues will be raised (revenue side) and the broad allocation of resources for certain objectives and activities for the coming fiscal year (expenditure side) to attain a long-term developmental objective. The budget involves planning, prioritization, strategizing, allocation of resources and provision of a system of accountability.

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and controls. The budget governs the allocation of scarce resources and reflects the priorities of a nation to expend on. *The national budget is the single most important economic policy tool of a government to influence the social, economic and political life of the people of any nation.*

3.3 Why prepare budgets

Government, like individuals or households, has limited resources in the face of unlimited demands in form of programs for the social and economic wellbeing of the people. This necessitates that Government plans carefully by estimating how much resources will be available in the coming financial year, and deciding the activities to be undertaken (*prioritisation*).

A national budget can be used to provide services which are vital to the country and which only Government can do best, such as; security, law and order, infrastructure development and disease control (*service delivery*).

Budgets also help in increasing the production of goods and services so that the average standard of living improves rapidly and poverty is correspondingly reduced (*economic growth*). A national budget can be utilized to promote economic order and stability by encouraging competitive efficiency and controlling inflation (*macroeconomic growth*).

3.4 Main Components of a National Budget

Broadly, the National budget is made up of Incomes and Expenditure components (refer to Figure 2).

Sources of income usually include Tax, Non-Tax and Grants. Taxes may either be direct and indirect taxes. Direct taxes may be levied on income or capital, for example income tax. Such taxes are called direct because it is normally assumed that the real burden of payment falls directly on the person or firm that is immediately responsible for paying them. By contrast, indirect taxes such as sales taxes or excise taxes on alcohol and tobacco are so called because it is assumed that the real burden of paying the tax will not fall on the firm immediately responsible for paying it but rather that it will be passed on to the customer. Other sources of
government income might consist of user charges for certain services (called non-tax), external assistance in form of grants, and other incomes from investments or commercial activities.

On the expenditure side of the budget, government may allocate funds, using economic classification, between recurrent and capital expenditures. Recurrent expenditures are on goods and services that are consumed immediately, for example wages of civil servants or supplies of health drug supplies for a hospital. Capital expenditures comprise funds spent on the purchase of goods that can be used to produce other goods, for example machinery or infrastructure.

The balance between recurrent and capital spending is important. When a hospital is built and equipped to service a community (a capital expenditure), then government has to make sure that it sets aside sufficient funds to run the clinic on a day to day basis, which requires budgeting for wages and allowances, medicines, utility payments and transport (recurrent expenditures).

On the other hand, government usually allocates funds for various sectoral functions such as Defence, Education, Health, Works and Transport, Agriculture, Justice, Law and Order, Water and Environment, Public Sector Management, and so on. This is called the functional classification of expenditures. The share of total expenditures allocated to each sector is a key indicator of spending priorities for a given year and of shifts in priorities over a period of time.

When government expenditure exceeds the available revenues, usually, government will resort to borrowing, either externally or internally to cover the shortfall (budget deficit). There is a wide range of alternate deficit measures, but conventionally, a deficit is widely quoted as perhaps the central indicator of fiscal health. The unusual situation is when revenues exceed expenditures in which case the difference will yield a Surplus.
It is important for Parliament to carry out a comprehensive and systematic assessment of the revenue, the expenditure and the financing components of any budget for transparency and sustainability purposes.

3.4.1 The Budget Revenues

The revenue side of the budget is governed by the main objective of mobilizing funds for meeting public expenditure. These funds include, domestic resources: which could be from tax revenue (comprising income tax, Value Added tax (VAT), International trade taxes, and local excise taxes), non-tax revenue and other local transfers to government.

The primary concern on the revenue side is often limited to the passage of new tax legislations spelling out the measures and or amendments to existing tax laws and schedules. The deeper consideration and review of the proposed revenue measures including the tariffs and tax brackets are handled by the Finance, Planning and Economic Development Committee and make recommendations to the house for debate and adoption. Taxation issues are complex and sometimes difficult to comprehend; however, Parliamentary Budget Office has the capacity to support the
Committees in computing the implication of each proposed tax measure on the economy and the budget. Even though tax debates are sometimes perceived as technical, Parliament should be mindful that tax debates can become heated and volatile, leading to mass mobilization.

In considering revenues options, especially from taxes, Parliament has to weigh the benefits and costs of each proposed revenue measure proposed by Government. Some tax measures, such as sales tax, tend to be more regressive, implying that the poor person will pay as much tax as the rich when purchasing that item. On the other hand, other tax measures, such as income tax, are progressive, implying that higher rates will be applied to an individual with a higher level of income. But in cases where the formal economy is small, like in Uganda, excessive taxation of a few high income individuals can undercut investment, which hampers growth and employment creation. Over time, this might erode the tax base and reduce the ability of government to raise revenues. Raising an adequate amount of revenues, while at the same time preserving equity and stimulating economic growth, can be a difficult balancing act.

### 3.4.1.1 Why emphasize the revenue side

Just like a home, Government cannot run without revenues and these are the primary blood of government functionally. Domestically generated resources, leverages the country in the international community. Without adequate revenue, government may be required to acquire or operate a budget deficit. While there are many ways to financing the budget deficit, so are the dangers associated with it. When budget financing is not effectively managed the government can be saddled with debt which can pose difficult challenge for economic management in the long run. Many highly indebted poor countries have had their economies destabilized as a result of the gap between revenue and expenditure.

Taking the political economy considerations into account the emphasis on the revenue side is essential if the budget is to;

- Ensure adequate sources of funding for important anti-poverty programs;
- Improve the distribution of income and wealth;
- Promote economic growth that can benefit all citizens;
- Enhance government transparency and accountability.
### 3.4.1.2 Sources of Government Revenue

Government revenues constitute of tax and non-tax (charges or levies) revenue and grants. Taxes and charges are compulsory levies on the private sector (firms and households). They do not require government to provide any direct goods and services in return for the appreciations; taxes and charges do not burden government with any liability to the Payee.

Typically, government revenue into government coffers or accounts are from the under listed sources.

**(a) Tax Revenue**
- Consumption (indirect) Taxes
  - Value Added Tax
  - Excise Duty Taxes
  - International Trade Taxes
- Income Taxes (Pay-As-You-Earn)
  - Taxes on Persons and Business incomes (Corporate Tax)
  - Social security and payroll taxes

**(b) Non-tax Revenue (NTR)**
These include fees, duties, levies paid for specific services or penalties for specific offences. The NTR collected by government includes stamp duty and motor vehicle transaction fees (registration, change of ownership, duplicate, alteration and re-registration, OTV, Search and Certification fees), court fees and fines, Passport fees, Work permit fees, Land Transfer fees, Tender fees, Permit fees, Traffic express penalties, Royalties and Company or Business registration fees.

**(c) Grants from donors**
Government receives grants or enters into grants agreements with international donors. Grants come in form of budget or project support from bilateral and multilateral donor governments and agencies. Grants are received to support government in improving delivery of public services in specific areas, such as education, health, energy, water and sanitation, agriculture and efficiency.
in the control and management of public resources. The biggest proportion of the grants is usually earmarked to support specific areas of interest by the donors and government may not have much discretion over their allocation. In addition, the grants have attached stringent conditionalities from the donors; hence may not be predictable in the long-run. Over time, donor support in Uganda has been declining from about 50% of the national budget in 1995/96 to less than 20% in 2015/16.

(d) Oil Revenue

In 2009, commercially exploitable reserves of oil were found in the Albertine Graben region in Uganda. According to the Ministry of Energy, the petroleum revenue estimates are likely to provide rents of up to 15% of GDP at peak and some 10% of GDP for a period of 20 years. The country is still faced with the challenge of bringing the petroleum to the market, pending the construction of an airport in the region, construction on an oil refinery and a pipeline to Tanzania. Oil Revenues are expected to hit the budget from FY 2019/20. H.E. the President has always emphasized that the oil revenues will be utilized to build the much-needed infrastructure in the economy, in order to benefit a larger number of Ugandans. According to the Public Finance and Management Act 2015, Parliament is mandated to receive and debate the Estimated Petroleum Revenue (Section 61(1)(a)), the semi-annual and annual reports on the performance of the Petroleum Fund (Section 61(1)(b)), the policy guidelines on the Petroleum Revenue Investment Reserve (Section 65(2)), annual plan and performance report of the Petroleum Revenue Investment Reserve (Section 71(3) and 72(3) and the Audit report on the Petroleum Revenue Investment Reserve (Section 73(2)).

3.4.1.3 Rationale for Analysing Government Revenue

In order to carry out a Government Revenue analysis, there is need to understand why taxes are levied and how the other non-tax revenues and grants are mobilised. Usually the objectives for levying taxes include:

- Resource mobilization for public expenditure,
- Regulation to correct market imperfections,
- Guiding and redirecting economic activities of Production, and Investment and Consumption,
 Industrial protection,
 Public safety,
 Strategic motive,
 Equity in resource distribution and
 Asserting Administrative Authority, among others.

Budget analysis involves examination of the extent to which the revenue targets meet the set objectives, the growth rate at which collection approaches the potential, the effort and efficiency that the collecting agent is utilising in collection.

During budget preparations, projections about levels of resources from each of the tax, non-tax and grants categories are set based on assumptions. The analysis of the resource side attempts to establish that the assumptions are as realistic as possible for the specified period and to check whether they actually materialize during budget implementation\(^7\).

The analysis of the foreign resources is undertaken to determine their accessibility and to secure the most favourable terms.

3.4.2 The Budget Expenditure

Public expenditure refers to the process by which the government expends its resources to achieve the various national objectives. The national goals are usually specified in the national and sectoral plans. For instance, Uganda has the Vision 2040, the National Development Plan and the Sector Investment Plans.

Public expenditure is largely governed by specific objectives such as the need to correct market failures, provision of governance, strategic considerations, social welfare and strategic interventions to support key activities with future potential, among others.

Broadly, public expenditure is categorized into Recurrent and Capital expenditure.

\(^7\)Failure to realize the required resources has major implications for the budget itself and the related economic variables. If the analysis reveals potential resource shortfalls, the expenditure adjustments may need to be made in good time.
Recurrent expenditure is mainly used to address Public consumption. The recurrent budget takes care of the day-to-day operational expenses such as Salaries and Wages, Staff Allowances, Medical expenses, Advertisements and Public relations, Computer supplies and IT Services, Workshops and Training, Stationery, Printing and photocopying, Travel Inland, Travel Abroad, Fuel, oils and lubrication and other recurrent operational activities.

On the other hand, the Development (Capital) expenditure (Public investment) caters for acquisition of capital goods such as machinery, vehicles and construction of Roads, Bridges, Schools, Hospital and Office buildings which items have a medium to long life span i.e. fixed assets.

Preparing a budget requires that one identifies the synergy between recurrent and development expenditure. Examples of need for synergy include:

- Purchase of tractors for Prisons Farms requires the provision for tyres and fuel for their running. However, the food produced could lead to saving on the feeding budget for the inmates.
- Purchase of vehicles requires that you have a budget for fuel and maintenance.

In case of a proposed Development Project, the recurrent costs and benefits must be estimated and in-built in future budgets e.g. cost of utilities for a new building; reduction in rent provision for a Ministry.

It should be noted however, that sometimes, the line dividing the recurrent and development expenditure is not so visible, because some items in development budget can be of recurrent nature.

The main aim of the expenditure analysis, however, is to ensure that the relevant expenditure meets the specified development objectives. Budget analysis also involves examination of the extent to which the expenditure targets meet the set development objectives; the expenditure growth against the size of the economy, the expenditure against the set fiscal rules; the allocative and operational efficiency and; the anticipated outputs and outcomes of the expenditures.
3.4.2.1 National Budget Priorities

Once the resource envelope has been determined then the broader allocation of Government resources between sectors is determined based on:

- Priorities which have been derived from the national planning framework and enshrined in the National Development Plan (NDP);
- The Governing Political Party manifesto,
- Constraints faced during implementation, and;
- Any emerging issues in the country

The sector budget ceiling for Government of Uganda (GOU) resources are then set as follows:

- The current financial year is used as a base;
- All one-off expenditures undertaken in the previous year are deducted from the sector ceiling and made available for reallocation to identified priorities e.g. Government contributions to the preparatory works for the Pope’s Visit; General Elections and Presidential and MPs Swearing-in activities, etc.
- The projected additional resources over and above the current year’s resource envelope are then allocated among policy priority areas and commitments receiving the first call on these resources.

The above factors then form the basis for the preparation of the indicative Medium Term Expenditure Framework (MTEF) which details the respective ceilings. These indicative sectoral ceilings are then communicated to the sectors around September of every financial year under a first Budget Call Circular. These numbers can then be revised in March\(^3\) after the Parliamentary approval of the Budget Framework Paper and finally in May-June before the reading of the Budget.

3.4.2.2 Budget Ceiling

A Budget Ceiling is a defined as a cap on spending for a given financial year. According to the Ministry of Finance, Planning and Economic Development, the ideal relationship between

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\(^3\) As per the PFM Act 2015 and the PFM Regulations, 2016
revenue and expenditure is arrived at on the guidance of a number of known parameters and these include:

- The budgetary resource envelope, which is the sum of all the resource inflows available to finance Government expenditures in a given fiscal year, less those resources that are needed for repaying Government debt and for Government savings.
- Constraint on MTEF ceilings is the presence of non-discretionary expenditure items, which need to be funded through the budget. These include all statutory expenditures (including interest payments), defence (security) and the Wage bill.
- The relationship between revenue and expenditure yields an important variable known as the **budget/fiscal deficit/surplus**. The Budget deficit occurs when domestic resources cannot fund the desired expenditure and on the contrary will be a surplus.
- The budget/fiscal deficit can then be funded either by local or foreign borrowing. Regardless of how it is financed, the level of fiscal deficit has implications on macroeconomic objectives (refer to Chapter 5 - Macroeconomic policy).

As part of the budget reform process, in 1992/93 government began formulating its annual budget within a three-year rolling budgetary plan known as the MTEF. The objectives of the MTEF are to match expenditures with available resources; guide sectoral allocation of expenditure; facilitate strategic sector planning and; improve efficiency and effectiveness in resource use. The MTEF sets the sector and district spending ceilings, taking into consideration the macroeconomic environment and prospects for revenue mobilisation.

The expenditure ceilings are intended to provide each of the different sectors with a predictable and stable projection of the budgetary resources that will be available over the medium term, and within which the sectors can plan their expenditures. The sector spending ceilings are determined within the sector investment plans, led by the sector working groups.
3.4.3 The Budget Deficit

Usually a Government faces budgetary constraints largely due to low incomes, low savings and a low tax base. In order to meet her development needs, a government requires more resources than it collects to finance its expenditure. In effect a government has a number of ways in which a budget deficit may be financed, including government borrowing domestically, government borrowing externally, printing money by the Central Bank and through external aid from donor agencies.

Budget analysis also involves the examination of the financing components and their likely impact on the economy. The size and growth of the budget deficit has adverse effects on the future budgets, the international reserves and generally disruptive to the monetary and financial stability and sustainability of the economy. The effects of budgets deficits on the economy largely depend on the financing sources (Mugume and Obwona, 1998)\(^4\).

If the deficit is financed by borrowing from the domestic banking system, the likely adverse impacts will be an increase in the domestic interest rates and the crowding out of private borrowers (Easterly and Schmidt-Hebbel, 1993)\(^5\).

In case the budget deficit is financed by direct borrowing from the Central Bank, most likely, a huge deficit financed this way may lead to inflation (IMF, 1995)\(^6\).

When a deficit is financed using external borrowing, most likely the exchange rate will appreciate resulting from the inflow of foreign exchange which in turn will affect the performance of the exports leading to a deterioration of the current account balance. The approach also leads to the growth in the country’s external debt stock which could result into a debt crisis (Easterly and Schmidt-Hebbel, 1993; IMF, 1995).

Financing the deficit through foreign aid could also have its own negative effects on other macroeconomic variables, if not well managed. The approach is similar to a windfall of resources denoted in foreign currency (foreign aid) leading to the appreciation of the exchange rate making the country’s exports less competitive or lead to resources moving away from the production of tradables to non-tradables.
CHAPTER 4: THE NATIONAL BUDGET PROCESS

4.1 Introduction

Budgeting is a process rather than an event and the budget cycle is a continuous and interconnected process. The role of Parliament is not constricted to budget approval and the review of audit findings but rather spans all over the whole spectrum of the cycle. The Financial Year in Uganda starts from July to June of the following year.

4.2 Legal and Planning Frameworks for the Budget Process

(a) The Legal Framework

- **Articles 152-159, Chapter 9 of the Constitution of the Republic of Uganda** provides the legal basis for the preparation and approval of the national budget. While Articles 190-197 of the Constitution requires Local Governments to prepare comprehensive development plans among others.

- **The Public Finance Management (PFM) Act 2015**, which replaced the **Public Finance and Accountability Act (PFAA) 2003**, provides for the fiscal and macroeconomic management; the Charter for Fiscal Responsibility; the Budget Framework Paper; the roles of the Minister and Secretary to the Treasury in the budget process; virements; multiyear expenditures and; supplementary budgets and excess expenditure. In addition, the PFM Act provides for Contingencies Fund; Consolidated Fund; Bank Account management; management of expenditure commitments; raising of loans by the Minister; management of Government Debt; authority to receive monetary grants and assets management; roles of Accounting officers; accounting standards and audit committees; in-year reporting; preparation of annual accounts and for accounting for classified expenditure; establishment and management of the Petroleum fund; management of Petroleum Revenue Investment Reserve; role of Bank of Uganda in operational management of Petroleum Revenue Investment Reserve; establishment of the Investment Advisory Committee; sharing of royalties and to provide for Offices and connected matters.
• **The Local Governments Act, Cap 243** provides for decentralisation at all levels of local governments to ensure good governance and democratic participation in, and control of, decision making by the people; to provide for revenue and the political and administrative setup of local governments.

• **The National Audit Act, 2008** gives effect to article 154(3) and 163 of the Constitution, by providing for the Auditor General and for the auditing of accounts of Central Government, Local Government councils, administrative units, public organisations, private organisations and bodies.

• **The Budget Act 2001** operationalizes Chapter 9 of the Constitutions -provides for and regulates the budgetary procedure for a systematic and efficient budgetary process and other related matters. The Budget Act provides for the Budget Committee of Parliament and the Parliamentary Budget Office (PBO).

(b) The Planning Framework

• **Uganda Vision 2040;** seeks to transform Uganda from a poor and under-developed country to a middle income country within the next 30 years as envisioned in the Vision 2040 aspirations of Uganda. To achieve this; *the strategic plan recommends increases in financing for infrastructural development, improvements in Uganda’s human resources and promoting innovations in science and technology, among others.*

• The national budget is guided by a 5 Year National Development Plan (NDP), which is Uganda’s National Development Framework and Medium-Term Planning tool that covers the fiscal period 2015/16 to 2019/20. It replaced the first NDP which ended in 2015. The theme for NDP II is: “**Strengthening Uganda’s Competitiveness for Sustainable Wealth Creation, Employment and Inclusive Growth**”.

• For the lower administrative plans, please refer to Table 1, on the Quick Guide to Planning processes in Uganda.

<table>
<thead>
<tr>
<th>Table 1: Quick Guide to Planning Processes in Uganda</th>
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<tbody>
<tr>
<td><strong>Vision 2040:</strong></td>
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<td><strong>NDP:</strong></td>
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<tr>
<td><strong>Sector Planning:</strong></td>
</tr>
</tbody>
</table>
District Planning: implementation plans for sector strategies based on local priorities / needs

MTEF: annual, rolling 5-year expenditure planning, setting out the medium term expenditure priorities and hard budget constraints against which sector plans can be developed and refined

District MTEF: setting out the medium term expenditure priorities and hard budget constraints against which district plans can be developed and refined

Annual Budget & District Budgets: annual implementation of the five-year planning framework

Donor; NGO; private sector: participating and sharing information / ideas in developing sector plans and budgets.

Participatory processes: bottom-up participation of districts in the planning and monitoring process, as well as participatory development assessments, providing essential feedback on progress towards government development goals.

Source: Ministry of Finance, Planning and Economic Development

- Section 13(6) of the PFMA requires that the Annual Budget shall be consistent with the NDP, the Charter for Fiscal Responsibility (CFR) and the Budget Framework Paper (BFP).
- Section 13 (6) of PFMA, Section 13(7) requires a Certificate of Compliance for the Annual Budget of the previous financial year to accompany the Annual Budget for next financial year issued by the NPA

4.3 Principles and Pre-conditions for Successful Budget Process

(a) Principles of a successful budget process

The two main principles behind government planning and budgeting system are:

(i). Realistic Budgeting through an integrated 5 – year budgeting and planning framework.

This involves:

- Five year rolling medium term framework for planning and budgeting;
- Preparation and updating of 5-year rolling development plans, which is fully integrated with the budgeting process and linked to the NDP and Charter of Fiscal responsibility (CFR).

(ii).Planning and budgeting must be carried out within expected revenues over the medium term through the preparation of and focusing on the intended results of expenditure:

- The objectives of expenditure should be clearly stated in the budget statements, and measurable targets set.
• The achievement of service delivery and investment performance targets must be linked to specific expenditures in the budget so that the efficiency of the expenditure choices can be assessed and problems identified.

(b) Pre-conditions for Successful Budget Process

Pre-conditions for successful budgeting include the following:

• The preparation process has to be consultative and participatory in order to ensure ownership to both processes and the approved budget.
• A systematic process of prioritization of programmes and expenditures, which is based on informed choices, must take place.
• Planned outputs, activities, and expenditure allocations in the annual work-plan and budget estimates must be realistic, and achievable.
• Realistic revenue forecasts.
• Sufficient time must be reserved for participation and dialogue between the relevant stakeholders and for public hearings.

4.4 Stages of the Budget Process

The lifeline of a budget is dictated and regulated by a rigorous framework that supports its approval regularly, usually on an annual basis, in order to ensure that the government continues to operate. Thus, the budget process is governed by a timeline that can broadly be classified into the following four different stages:

• Drafting/Preparation
• Legislative/Approval
• Implementation/Execution & Monitoring
• Audit and evaluation

Generally, the known budget process in Uganda starts in August of each year and goes through the various stages as explained below. Parliament as a key stakeholder, ought to understand the budget stages, the key players at each stage, the roles of Parliament and the tools required by
Parliament to fully engage in the process at each stage and then the challenges in fulfilling Parliamentary roles.

(a) Drafting Stage

The drafting stage is the most closed part of the budget process in virtually all Countries and the most dominated by the Executive. In the drafting stage, the Executive prepares a macroeconomic framework for the proceeding financial year with detailed underlying assumptions in September. The first Budget Call circular which communicates the budget priorities and the indicative sectoral ceiling is issued in mid-September. The Executive submits the Budget Framework Paper to Parliament by 31st December and the proposed Annual budget by 1st April. The Budget Framework Paper has to be approved by Parliament by 1st February (refer to Table 2).

Generally, there is, but little formal consultation on the budget priorities between the Executive and the local citizens. Instead, sectoral and regional workshops are conducted, with participation of persons from local government administrative units. Usually the Members of Parliament from the region are invited to the regional workshops that discuss the budget priorities. Although the Civil Society Organisations (CSOs) inputs are so vital at the budget drafting stages, it is only the Budget Act, 2001 and the Public Finance Management Act, 2015 that gives the CSOs a window for interaction in the budget process. The intervention opportunities for civil society that do exist in the drafting stage are often informal, based on the organization’s initiative and networks, and reliant on departmental and ministerial contacts.

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>DUE DATE</th>
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<tbody>
<tr>
<td>The Minister, with approval of Cabinet, Submits the Budget Framework Paper to Parliament (Section 9(5))</td>
<td>31st December</td>
</tr>
<tr>
<td>Parliament Approves the Budget Framework Paper (section 9(8))</td>
<td>1st February</td>
</tr>
<tr>
<td>The Minister and the Heads of other votes, Submit to Parliament Policy Statements to Parliament for the proceeding FY (section 13(13))</td>
<td>15th March</td>
</tr>
<tr>
<td>The Minister, on behalf of the President, presents to Parliament the Proposed Annual Budget of the preceding FY (section 13(3)) and all plans necessary for the operationalization of the proposed Annual Budget (section 13(10))</td>
<td>1st April</td>
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<tr>
<td>ACTIVITY</td>
<td>DUE DATE</td>
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<td>-------------------------------------------------------------------------</td>
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<tr>
<td>Parliament approves the Annual Budget, Work plans, Appropriation Bill</td>
<td>31st May</td>
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<tr>
<td>and other Bills necessary to implement the Annual Budget for next FY</td>
<td></td>
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<tr>
<td>(section 14(1))</td>
<td></td>
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<tr>
<td>Annual Budget becomes effective (section 13(5))</td>
<td>1st July</td>
</tr>
<tr>
<td>The Minister Submits to Parliament a Charter of Fiscal Responsibility</td>
<td>Not later than 3 months after the first sitting of</td>
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<tr>
<td>(section 5)</td>
<td>Parliament after the General elections.</td>
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<tr>
<td>Parliament to approve deviations from objectives of the Charter of</td>
<td>When presented by the Minister.</td>
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<tr>
<td>Fiscal Responsibility (Section 7)</td>
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</table>

**REPORTS TO PARLIAMENT**

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>DUE DATE</th>
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<tbody>
<tr>
<td>The Minister Reports on Fiscal Performance to Parliament (section 18)</td>
<td>28th February and 31st October</td>
</tr>
<tr>
<td>The Minister reports to Parliament the reasons for non-utilization of</td>
<td>After 31st July</td>
</tr>
<tr>
<td>grants to Local Governments (section 17(5))</td>
<td></td>
</tr>
<tr>
<td>The Minister reports to Parliament the performance of the Multiyear</td>
<td>Once every FY</td>
</tr>
<tr>
<td>commitments (section 23(4)).</td>
<td></td>
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<tr>
<td>The Auditor General reports to Parliament on the accounts of the</td>
<td>Once every FY</td>
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<tr>
<td>Contingencies Fund (section 26(16))</td>
<td></td>
</tr>
<tr>
<td>The Minister reports to Parliament on abandonment of claims and write</td>
<td>Within three months after the end of the FY</td>
</tr>
<tr>
<td>off of public money and stores (section 35(5))</td>
<td></td>
</tr>
<tr>
<td>The Minister reports to Parliament on Management of Government Debt,</td>
<td>1st April</td>
</tr>
<tr>
<td>guaranteed loans and the other financial liabilities of Government</td>
<td></td>
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<tr>
<td>and analysis of associated risks (section 42(2)) and (section 39(4))</td>
<td></td>
</tr>
<tr>
<td>The Minister report to Parliament on Grants received by Government or</td>
<td>Once every FY</td>
</tr>
<tr>
<td>received by Vote (section 44(5)).</td>
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<tr>
<td>A Person or Authority granted power to exempt the payment or to vary</td>
<td>By 30th Sept, 31st Dec, 31st March and 30th June</td>
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<tr>
<td>any tax under an Act of Parliament shall make report to Parliament on</td>
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<tr>
<td>exemption of Tax (section 77(1))</td>
<td></td>
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<tr>
<td>The Minister tables to Parliament the Estimated Petroleum Revenue for</td>
<td>30th Sept</td>
</tr>
<tr>
<td>the FY (section 61(1)(a))</td>
<td></td>
</tr>
<tr>
<td>The Minister tables to Parliament Semi-annual and Annual reports on</td>
<td>1st April and 31st Dec</td>
</tr>
<tr>
<td>the performance of the Petroleum Fund (section 61(1)(b))</td>
<td></td>
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<tr>
<td>The Minister tables to Parliament the Policy Guidelines on the</td>
<td>Within one month of issuing policy guidelines to</td>
</tr>
<tr>
<td>Petroleum Revenue Investment Reserve (Section 65(2))</td>
<td>BoU</td>
</tr>
<tr>
<td>The Minister tables to Parliament an annual plan and performance</td>
<td>1st April</td>
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<tr>
<td>report of the Petroleum Revenue Investment Reserve (section 71(3)) and</td>
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<td>(section 72(3))</td>
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<td>ACTIVITY</td>
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<tr>
<td>The Auditor General submits an audit report to Parliament on the</td>
<td>30th June and 31st December</td>
</tr>
<tr>
<td>Petroleum Revenue Investment Reserve (section 73(2))</td>
<td></td>
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<tr>
<td>The Minister submits to Parliament a Treasury Memoranda (section 53(1))</td>
<td>Within six months from the date of Parliament’s consideration of the report of the Auditor General.</td>
</tr>
</tbody>
</table>

Source: Compiled by Parliamentary Budget Office

(b) Legislative stage

Many budget groups focus considerable energy on this stage for several reasons. In most democracies, the budget is tabled and must be approved in the legislature. In Uganda, this stage is a constitutional requirement, under Articles 152 – 158 of the Constitution of the Republic of Uganda. Uganda’s budget process provides for an early involvement of Parliament to have an effective contribution into the proposed Annual budget. This increases the opportunities for direct influence and the demand for effective service delivery and accountability before resources are approved. Given Parliament’s role as the representative of citizens, this stage is often considered the most appropriate point for active engagement with the Executive.

According to Section 13 of the PFM Act, 2015, the Executive has to table the proposed Annual Budget to Parliament by 1st April and passed by 31st May. The proposed annual Budget has to be consistent with the Budget Framework Paper and the NDP; it has to be accompanied with a certificate of compliance to the NDP, a certificate of Equity and Gender responsiveness and the Appropriation bill. The proposed budget has to be based on sound analysis and forecasts of macroeconomic developments and fiscal prospects.

Discussions of the proposed annual budget are also informed by the Ministerial Policy Statements which are submitted to Parliament by 15th March. Parliament, and its Committees, debates the Ministerial policy statements and the proposed Annual budget before the Budget Committee takes on the role of harmonising the information from the debates into the final budget position. The Parliamentary Budget Committee, with technical support from the Parliamentary Budget Office, scrutinizes the Appropriation Bill and presents a report to the
Plenary of Parliament for discussion. Finally, Parliament approves the Budget by passing the Appropriation bill and the Statutory Expenditures. Parliament should pass the Appropriation bill by 31st May (refer to Table 2).

(c) Implementation stage

Budget implementation is primarily an Executive function. For most applied budget groups, the importance of this stage is the opportunity it holds for collating information on expenditure, revenue and outputs that will contribute to the quality of their participation in the legislative stage. Here more emphasis is on accountability mechanisms on funds released to the spending agencies. It is also concerned with oversight of programme outputs and monitorable indicators, which hinders effective utilization of resources, tracking expenditure and impact of the budget on communities which members represent.

According to the Section 18 of the PFM Act, 2015, the executive is supposed to make periodic reports to Parliament on the Fiscal performance; and under section 77(1) of the PFM Act, the executive is enjoined to make periodic reports to tax exemption. The periodic reporting is meant to provide Parliament with information for their oversight role and to ensure close monitoring and evaluation of government programmes (refer to Table 2).

(d) Auditing stage

The primary constitutional actors in the auditing stage are the Auditor-General in the case of Uganda and the Legislature. The Auditor General is required to report to the Legislature as keeper of the purse. The major opportunities for members and independent budget organizations follow from the findings of the audit and the legislature procedure to evaluate these. Parliament through the accountability committees (Public Accounts Committee, Committee on State Enterprise and Commissions and the Local Governments Public Accounts Committee) scrutinizes the Auditor General’s report and causes the spending agencies to explain the inadequacies. However there is usually a challenge with most of the audit reports having a backlog and usually the culprits have either changed jobs, died or very difficult to trace to ensure that they account for their actions.
Sections 15 – 19 of the National Audit Act, 2008 mandates the Auditor General to carry out audit accounts of public Ministries, Department and Agencies and make timely reports to Parliament. In addition, the Auditor General periodically submits to Parliament audit reports on the Petroleum Revenue Investment Reserve (refer to Table 2).

The PFM Regulations, 2016 also indicate, in a schedule, the various activities in the Budget process and their due dates (refer to the Annex 1).

Figure 3, summarises the attendant interconnected working relationship in shaping the national budget at the different levels.
4.5 The Consultative Budget Process

Figure 2 below, illustrates the various stages in the preparation of the budget which is a highly consultative process acclaimed internationally. The figure shows the four major levels of the consultative process and how each is managed. The four levels are:

i. The Agency Level inclusive of respective ministries, other spending Agencies, Sector working groups, Civil society that determine specific spending needs and associated allocations and outputs
ii. Central Coordination Level at Ministry of Finance, Planning and Economic Development (MFPED) that brings together revenues, development assistance, debt and broad expenditure allocations in a consistent Fiscal Framework

iii. Executive Policy Formulation and Approval Level at Cabinet

iv. Legislative Approval level at Parliament
### Figure 4: The Consultative Budget Process in Uganda

<table>
<thead>
<tr>
<th></th>
<th>July - Sept</th>
<th>Oct - Dec</th>
<th>Jan - March</th>
<th>April – June</th>
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<tbody>
<tr>
<td><strong>Parliament</strong></td>
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<td><strong>Cabinet</strong></td>
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<td><strong>Ministry of Finance Planning and Economic Development</strong></td>
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<tr>
<td>- 1st Budget Call Circular</td>
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<td>- Budget theme/priorities</td>
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<td>- Indicative Sector Ceiling</td>
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<td>- Budget &amp; SWG Guidelines</td>
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<td>- National Budget Workshop</td>
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<td><strong>Ministries / Departments / Agencies</strong></td>
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<td><strong>Submission of Final Accounts to OAG</strong></td>
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<td><strong>Sector-wide Consultation &amp; Preparation of Sector BFPs</strong></td>
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*Note: The process includes various stages such as budget implementation, consultation, approval, and finalisation, with specific dates and activities outlined for each phase.*
4.6 Actors in the Budget Process

(a) The Executive: Within the Executive, the Ministry of Finance, Planning and Economic Development plays a pivotal role in setting the strategic direction of the budget, coordinates and drives the budget process in accordance with the Budget calendar. The Ministry of Finance, Planning and Economic Development (MFPED) has the economic expertise to prepare macroeconomic projections. The projections are important in order to assess the amount of money that will be available for spending.

The Ministry also formulates fiscal policy stance, through guiding the drafting of the budget, and later in budget implementation and monitoring. Various spending departments (MDAs) are ultimately responsible for expenditures within their jurisdiction, such as health, education, agriculture and so on. Spending departments always try to extract as much resources as possible, whereas the role of the finance ministry is that of the guardian of the public purse.

(b) Parliament: The Constitution of the Republic of Uganda requires that taxation and public spending to be approved by Parliament. Therefore, the role of the legislature is to scrutinize and authorize the raising of revenues and expenditures, and to ensure the budget is properly implemented.

Besides the budget scrutiny at Parliament, Members of Parliament should sensitize their constituents to make sure they pay taxes, make sure they understand the national budget as well as their Local Government budget. The citizens should have the capacity to Vote into positions of leadership people of integrity and make sure they get accountability from them, demand to know how public resources are being utilized and participate in meetings organized by citizens groups that monitor implementation of government programmes.
(c) **Auditor General**: The Auditor General carries out an audit of government accounts in order to determine whether government did in fact implement the budget as passed by the legislature. He also considers whether this was done efficiently and effectively.

(d) **Civil Society Organizations**: The potential contribution to the budget process of civil society organizations, covering the full spectrum from think tanks to community-based organizations, is increasingly appreciated. Civil society organizations provide independent research from a perspective that is not covered by conventional analyses. One example is the work of the Civil Society Budget Advocacy Group (CSBAG), a coalition of over one hundred (100) CSOs, which are concerned about the management of public resources and effectiveness of service delivery.

Civil society input to the legislature is possible when committee debates are open to the public; legislative information is freely available and; when committees conduct hearings and receive submissions on legislation and budget during the consideration process.

(e) **The Media**: The media plays an important role in ensuring that the central issues in budgetary debates are widely relayed and understood by the public. In order to play this role, journalists require full access to the legislature and its committees, and all relevant documentation should be available to them.

(f) **Citizens**: Every Ugandan has a role to play in the budget process because everyone contributes to the public purse through taxation from personal income or business related taxes whenever they purchase something from the shops, or receives certain services like in hotels or salons.

Citizens also pay fines and fees for various services such as passports, licenses, etc. For the Financial Year 2015/2016, the domestic revenue that includes tax revenue and others alone is estimated to grow by 15% and will constitute 68% of the national budget resources. Since citizens contribute to the revenue of the country, they have a legitimate role to play in the budget process.
4.7 Key Documents in the National Budget Process

(a) The National Vision 2040 and National Development Plan

This is the overarching national planning policy framework that provides the strategic direction of the country by identifying key projects that spurs the national development. The current vision is to be attained in thirty years and in essence it’s a thirty year plan. The Vision 2040 is operationalised and implemented through the National Development Plans that are divided into 5 years plan clusters.

(b) Background to the Budget

The Background to the Budget provides information on the benchmarks of the economy, on the performance of National Budget and the Economy as a whole. It also provides various economic and social statistics that guides the budget preparation. It is supposed to precede any other budgetary documents in regard to Budget processes.

(c) National Budget Framework Paper

The National Budget Framework Paper is a vital document that rolls out the Government macroeconomic plan and the medium term expenditure Framework for five years. It highlights the key sectoral policies and the budgetary allocations in the medium term expenditure framework. Parliament approves the BFP and it forms part of Parliamentary Resolutions Sec 9 (8) of the PFM Act 2015.

Section 9 (7) & (8) of the PFM Act 2015, the President shall cause to be prepared and laid before Parliament the Budget Framework by the 31st of December. To fulfill this requirement the Ministry of Finance, Planning and Economic Development prepares the National Budget frame work paper. This BFP is consolidated from the Sectors and Local Governments BFPS.

Specifically the BFP highlights:

- Government’s macroeconomic policies, recent macroeconomic performance and future plans, and;
- Government’s priorities and how resources have been allocated to achieve the national objectives.
• Ensures that expenditure programmes are driven by strategic priorities and disciplined by hard budget constraints.

• This framework helps Government to manage the tension between demands for expenditure (“needs”) and the resources realistically likely to be forthcoming, from both domestic and external sources (“availabilities”).

• Between 31st December and 1st February, discussions are carried out between Parliamentary Committees and MDAs. These discussions culminate into Parliamentary approval of the NBFP by 1st February.

• Section 13(11) (f) of the PFM Act 2015, and Section 5 of the Budget Act, 2001, requires heads of Self Accounting bodies to submit budget estimates of revenue and expenditure the President. These estimates are laid before Parliament by the Minister of Finance Planning and Economic Development with comments but without any amendments.

(d) Budget Ministerial Policy Statement

According to Section 13 (13) PFM Act 2015, every ministry or head responsible for a vote is expected to prepare and submit a Ministerial Policy Statement each financial year with detailed information on the planned expenditure and outputs for the following financial year to Parliament.

The Ministerial policy Statement forms the basis for Parliament’s scrutiny and debate of the budget of each Ministry and provides link between the Ministry’s strategic priorities and the proposed Budget allocations. The MPS shall be in a format as described in Sec 13(15) of the PFM Act 2015.

The Parliaments’ Sessional Committees scrutinize the Ministerial Policies Vis-a-Vis the proposed budget allocations and the national BFP. The Chairperson of each Sessional Committee presents a report to the Plenary of Parliament.

The Ministerial policy contains the detailed plans (Ministries Departments and other Government Agencies) and key in here are the costed annual budgets, procurement and recruitment plans and relevant information about the vote inventories.
(e) **Budget Speech**

Article 155 (1) of the Constitution and the Budget Act, 2001, the Minister of Finance, Planning and Economic Development presents the Budget Speech at a seating of Parliament by the 15th day of June. Currently, it is an agreed practice that the Budgets of the five East African Community (EAC) countries are read on the same day. This highly critical political discourse is presented to the Country during a gazetted sitting of Parliament. The Budget Speech, is a document that spells out the status of the economy, the previous budget performance, approved tax measures and the approved budget provisions in the new financial year for implementation.

(f) **Appropriation Bill and other “Money” Bills (Finance and other Tax Bills)**

The approval of the National Budget is facilitated by the proposed budget allocations and the laws for financing the Budget. The proposed numbers for approval are contained in the Appropriation Bill whereas the Finance Bills are mainly amendments to the existing laws.

(g) **Draft Estimates Book**

This contains the detailed budget allocations by line item popularly known as the Budget lines in the chart of accounts.

(h) **Periodic Reports**

According to section 18 of the PFM Act, 2015, the Executive is supposed to make reports on Fiscal performance to Parliament. The Executive is also supposed to report on the performance of the Multiyear commitments (section 23(4)), Non-utilized grants to Local Governments (section 17(5)), Management of Government debt and guaranteed loans (Section 42(2)), Tax exemptions (section 77(1)) and the performance of the Petroleum Fund (section 61(1)(b)). (refer to Table 2)
CHAPTER 5: PRINCIPLES OF BUDGETING & BUDGET ANALYSIS

5.1 Introduction

This chapter introduces some basic principles and tools for Budget analysis. To ensure that budgets are truly representative of the wishes of the people they are meant to serve, the budget planners have to take into account certain principles that govern good budget planning.

5.2 Budget Principles

A good budget ought to be prepared in accordance with internationally recognised principles of periodicity, authority, predictability, participation, contestability, transparency, accountability, accuracy and comprehensiveness.

Text Box 1: Principles of Good Budgeting

- **Periodicity**: The budget system should have a specified periodic plan for drafting, legislation, execution, monitoring, auditing and evaluation. The extent to which the budget making process complied with the existing legal framework should be assessed.

- **Authority**: A good budget should be authorized by institution that is not the spender. For the case of Uganda, the national budget is approved by Parliament through the appropriations Act. It is critical to assess the extent to which the Appropriation Act was complied with.

- **Predictability and Participation**: For effective and efficient implementation of policy, assumptions underpinning the budget should be realistic to ensure that it is stable. The budget making process should be participatory and consultative. The extent to which the views of all stakeholders have been adopted should be assessed. An assessment of the extent to which the recommendations of Parliament have been implemented should be assessed.
• **Comprehensiveness and Accuracy**: Information provided should be complete and accurate. It is important to assess completeness and accuracy of all the numbers. All sources of funding and expenditure priorities should be clearly disclosed.

• **Contestability**: A good budget system should as much as possible allow for different policies to compete for funding on an equal footing, allocations should not be automatic. It is important to ascertain the criteria used in budgetary allocation.

• **Transparency and Accountability**: There is a tendency to conceal information on cost drivers and baseline statistics regarding performance targets and key outcome indicators. This information should be ascertained in the process of analyzing the budget.

*Source: The World Bank (1998)*

5.3 Budget and Policy Analysis

**Budget Analysis**

Budget Analysis involves ascertaining its impact on the country. It can be done at national, sectors, MDAs and at individual facility beneficiary level. It involves assessing the extent to which government policies are translated into budgets and how agreed upon priorities are aligned.

- Policies are principles, plans and procedures established with the intent of reaching a long-term goal e.g. wealth creation and poverty reduction.

- The success of a government policy is assessed by the extent to which it increases the well-being of its citizen. Policies impact the national economy both fiscal and monetary, livelihoods of citizenry both rural and urban - in terms of employment opportunities and patterns, environment and health, education, foreign relations among others.

**Policy Analysis**

The success of a government policy is measured by the extent to which it increases the well-being of its citizen. A Government Policy Seeks to:

- Increase equality by redistributive means. i.e. taxing the rich and channeling the funds to help low-income people.

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• Increase efficiency by market based means, i.e. making policies that allow free markets to function smoothly.
• Increase equality by redistributive means. I.e. taxing the rich and channeling the funds to help low-income people.
• Increase efficiency by market based means, i.e. making policies that allow free markets to function smoothly.

Therefore, policies affect a number of cross cutting issues and impacts. Some of the impacts could include but are not limited to the following:

• Impact on the national economy,
• Urban and rural livelihoods,
• Impact on land use and ownership,
• Impact on physical planning,
• Impact on fiscal and monetary policies,
• Impact on the country’s industrialization drive,
• Impact on agricultural and fisheries activities,
• The social and population distribution impact,
• Impact on employment opportunities and patterns,
• Impact on the environment and health of the population,
• Impact on education and research plans,
• Demands skills not currently available in our institutions,
• Impact on relations with neighbouring countries, and
• Impact on local community relations.

5.4 Focus of Budget Analysis

Budget analysis focuses on the implication of budgets in the country. This can be done as follows:

• Analyses that focus on executive budget proposals
• Sector specific analyses
• Analyses of effects of budgets on diverse population groups
• Analyses of effects on economic and social rights
• Analyses that focus on the economy in general; and
• Analyses that focus on budget revenues.

5.5 Importance of Budget Analysis

Once there is a clear understanding of the underlying principles of the budget, Budget Officers can then be in a better position to simplify the budget numbers and assumptions therein for Members of Parliament.

In budget analysis, one should often aim at establishing the critical levels of public expenditure to deliver planned objectives and the required resources to finance that expenditure with minimum disruption to the Macroeconomic objectives. It involves:

• Checking whether there is Clarity and credibility in the budget. Is the budget prepared based on clear and credible assumptions? Are the assumptions realistic given the fiscal and monetary policy stance?
• Whether the budget is well alignment to the National Development Planning Framework, Public Investment Plan (PIP), sector Investment Plans (SIPs) as well as the agreed upon national and sector priorities.
• Establishing if there justification for the sectoral and Vote specific allocations? Is there value for money spent for the preceding fiscal year?
• Assessing whether the budget is aligned to the Work Plans, Recruitment Plans and Procurement Plans?

5.6 Budget Analysis Tools

Technique 1: Calculating the Percentage Shares of the Budget

Percentages can be relied upon to measure how a particular budget line (e.g. Agriculture, Education, Health) is prioritized against other items. Similarly, the measure can be used to assess the extent of performance from period to another. Usually, the following computations are done:

• Vote allocation as a percentage share of national budget
- Vote Function or program or project budget allocation as percentage share of the total Vote budgetary allocation
- sub-programme budget percentage share of the total Vote Function or programme

**Technique 2: Trends analysis of the percentage share of the budget**
- Percentage share trend analysis can help ascertain changes in government’s priorities. It is easy to compute and interpret.
- Budgetary trend (over time) analysis for a Sector, Vote, vote Function, even national budget helps assess shifts in priorities, and can reveal variations in agreed upon outcome and output targets.
- Comparisons can be done for Sectors, MDAs, regions and Districts. This can be used to inform policy and budgetary decisions.

**Technique 3: Converting a budget item from its nominal to real amounts**
- It is critical to take into account the effect of price changes over time when analyzing the budget and the economy. This is achieved through computing real values other than depending on nominal values. This helps to ascertain the actual purchasing power of a given budgetary expenditure would cause. Hence understating the real effect on the welfare of society.
- A comparison of the nominal amounts over a period of years may not reflect how the purchasing power value has changed over time. For, example, if a budget allocation increases at the rate that is less than inflation, it is not a real increase. So to compare allocations over time more accurately, nominal amounts have to be converted into real amounts.
- Calculating of the real value of an amount, therefore, requires the use of a deflator to determine the value after inflation. In basic terms, a deflator is a ratio of how much the general price has increased or decreased over time. The value of the deflator is normally calculated through a more complex procedure- Parliamentary Budget Officers usually undertakes this kind of computation.
Technique 4: Calculating Growth Rate & Real Values

- Calculating the growth rate of the nominal or real value of a particular budget line can help provide a means of assessing the percentage of the original budgetary allocation across a spectrum of years.

Technique 5: Calculating Average Real Growth Rate

- Using the real values calculated in technique 3, above, it is possible to generate a time series trend from which an analysis of the growth over a period (medium term trend) can be obtained.

Technique 6: Calculating Budget Variances

- The budget variance is the difference between the actual and the planned/projected or proposed budget for the year under review. It is important to compare budgets of major budget drivers. This is achieved by computing the difference between the approved and or actual outturns for the preceding budget year and the proposed or estimated budget for the period under review. In addition, variations across the medium term can help provide a general picture of government priorities. This information is helpful in assessing whether the Budget is realistic and in line with NDP targets as well as SIPS.
- It is critical that causes of the observed variations are understood before recommending the proposals for approval by Parliament.

5.7 Sources of Budget and Economic Data/Information

There are several source of budgetary data/information. The following are some of the main sources:

- Budget Call Circular
- Sector Budget Framework Papers
- National/Sector Budget Framework Papers
- Ministerial Budget Policy Statements
- Annual Budget (Estimates)
- Appropriations Bill/Act
- Tax and Finance Bills/Acts
- Report of Loans and Guarantees
- Bi-annual and Annual Budget Performance Reports
- Budget Monitoring Reports
- Bank of Uganda Financial Statistics
- Uganda Bureau of Statistics – Statistics
- Parliamentary Committee Reports on the NBFP and MBPS
- Parliamentary Committee Oversight Reports
- Public Investment Plan (PIP)
- Sector Investment Plans (SIPs)
- Certificate of Budget Compliance by National Planning Authority (NPA)
- Gender and Equity Certificate by Ministry of Finance, Planning and Economic Development
- Budget Speeches
- Background to the Budget (BTTB)
- Bank of Uganda Annual Reports
- Local Government Budget Performance Reports
- Local Government Development Plans (DDPs)
- MDAs Budget Performance Reports
- Uganda Revenue Authority Performance Reports
- The 1995 Constitution of the Republic of Uganda (as amended)
- The Public Finance Management Act 2015
- The Budget Act 2001
- Local Government Finance Act, 2000
- PBO Reports and Briefs
- Report of the Auditor General on Public Accounts and Value-for-money Audits
- Monitoring Reports (BMAU)
- Policy briefs
- News Papers
- Internet-Official Websites
5.8 Why Budget Analysis

- Establish whether the overall sector/vote medium Term policy objectives are Consistent with Sector Investment Plan (SIP) and contributes to the NDP, Vision 2040 and Ruling Party Manifesto objectives.
- Whether Sector/Vote objectives facilitate delivery of Sector/Vote mandates (with no duplication) and whether Sector/Vote mandates fully reflect/address current needs.
- Assess both the financial and physical budget performance comparing the approved budget and the actual expenditure outturn.
- Ascertaining the causes of budgetary variation and the challenges faced during budget execution. Assess whether the Proposals for Improvement are likely to address the observed/identified challenges.
- Assess the extent of achievement of key Sector/Vote specific outcome and performance targets.
- Assess the overall medium term sectoral/vote specific budgetary allocation trends (wage, non-wage, Government of Uganda development, and external - development) and comment on national, sectoral, vote and Vote Function national, Sectoral, Vote Function budget share trends.
- Ascertain the major budgetary allocation drivers for Vote Functions & or Projects & their implications to attainment of national/sectoral/vote/Ministry’s objectives & targets.
- Checking the completeness of the budget figures.
- Checking the accuracy and correctness of the budget figures.
- Checking previous releases of funds against budgetary allocations to various spending agencies/units.
- Checking resource outturns against the projections. This includes examining the feasibility of the assumptions for resource mobilization.
- Identifying potential for budgetary wastes and leakages. Common examples of budgetary leakages could include:
  
  i. Non-existent ‘ghost’ workers, soldiers, teachers and students/pupils at various levels in both central government and local governments.
  
  ii. Goods and services not supplied, commonly known as ‘air supply’
  
  iii. Shoddy works e.g. schools construction, health facilities, roads, boreholes etc.
iv. **Wastages in forms of fraud, embezzlement and outright corruption.**

- Ascertain key emerging policy issues impacting on the proposed budgetary allocations.
- Ascertain Sectoral/Vote unfunded/underfunded priority activities overtime and how they are prioritized over time.
- Assess the extent to which key Parliament and committee specific recommendation are being implemented or considered by MDAs.
- Budget analysis also aims at ascertaining the extent to which the national and MDA specific budget is compliant with the NDP and Gender Equity requirement of the Public Finance Management Act 2015.

In brief, the budget should have three key outcomes:

- Aggregate level of spending: Levels of spending, taxation and debt must be affordable and sustainable. This is the principle of *fiscal discipline*.
- Composition of spending: Resources must be spent on the right combination of programmes, in accordance to strategic priorities. This principle is called: *allocative efficiency*.
- Composition of spending: We need to get the most for the money spent, and minimize wastage. This principle is called *operational efficiency*.  

CHAPTER 6: MACROECONOMIC POLICY AND THE BUDGET

6.1 Introduction

This chapter presents a picture of the National Economy in an abridged but holistic approach, amongst the economic sectors and their relationship with the national budget. The Budget is the most effective known political tool for socioeconomic transformation that government uses to influence the welfare of its people, let alone the relationship with the rest of the world.

6.2 What is Macroeconomic Policy?

Macroeconomic policy is a set of strategic undertaking in the economy on the levels and behavior of aggregate economic variables. The aggregate economic variables directly affect large sections of or the whole economy and these are treated as economic indicators of the economy. The aggregate variables have direct impact on national accounts and the different sectors of the economy including the:

(a) Real Sector - which constitutes the Gross Domestic Product (GDP),
(b) External Sector - for Balance of Payments,
(c) Monetary or Financial Sector for Money Supply, lending & investment and,
(d) Fiscal Sector or the government sector for raising public resources and its investment.

6.3 The Macroeconomic Framework

The Macroeconomic Framework is a policy tool that reviews past and present economic developments as well as an outlook for the domestic, regional and world economies upon which recommendations for the future course of fiscal policy among others are made. The Macroeconomic Policy in Uganda is conducted through, the Macroeconomic Framework (MEF) – which is a system of relationships and interplay amongst the different economic variables, usually expressed as equations in the economy, based on traditional economic theory. As such, the MEF in Uganda is comprised of over a five-year period to coincide with the National Budget Framework Paper (NBFP) of the Government. The MEF ensures consistency and coherence among the national accounts.

6.4 The Management of Macroeconomic Policy

Uganda’s macroeconomic objective and thrust remains to deliver macroeconomic stability, to support inclusive and sustainable economic growth and socioeconomic transformation. The PFM Act 2015 (section 4) entrenches the following principles for macroeconomic and fiscal policy:

- Maintenance of prudent levels of public debt
- Ensuring a sustainable non-Oil fiscal balance over the medium term
- Managing of the finite natural resources for the benefit of current and future generations
- Managing fiscal risks in a prudent manner
- Raise revenue to finance investments programmes in a sustainable manner

6.5 The Charter of Fiscal Responsibility (CFR)

Section 5 of the PFM Act, 2015 provides for the Charter of Fiscal Responsibility (CFR) which sets out measurable fiscal policy objectives for both the short and medium term (5 years).
The CFR presents Government’s strategy for operating sustainable fiscal policies consistent with sustainable fiscal balances (deficits/surpluses) over the medium term and the maintenance of prudent and sustainable levels of public debt.

The purpose of the CFR is to strengthen accountability, transparency and stability of Government’s fiscal policy framework through providing clear information on past fiscal outcomes and expected fiscal developments and specifying measurable fiscal objectives for the medium term. The CFR is submitted to Parliament for approval within the first three months after the first sitting of Parliament after the general election.

6.6 Fiscal Objectives in the Charter of Fiscal Responsibility

In Section 4(2) of the PFM Act 2015, Government is required to comply with the following fiscal principles for the responsible development of fiscal policy:

- Sufficiency in revenue mobilisation to finance Government programmes
- Maintenance of prudent and sustainable levels of public debt.
- Ensuring that the fiscal balance, when calculated without petroleum revenues, is maintained at a sustainable level over the medium term.
- Management of revenues from petroleum resources and other finite natural resources for the benefit of current and future generations.
- Management of fiscal risks in a prudent manner.
- Consistency of the Medium Term Expenditure Framework with the National Development Plan.
- Efficiency, effectiveness and value for money in expenditure.

6.7 Fiscal Balance and Public Debt Objectives

6.7.1 Fiscal Balance

The fiscal balance also known as the net lending/net borrowing balance, is the difference between total revenue and total expenditure or the difference between the net acquisition of
financial assets and the net incurrence of liabilities. When expenditure exceeds revenue, the balance is negative (net borrowing) and we call this a deficit; if the balance is positive, we call it a surplus (net lending).

Under the Charter of Fiscal Responsibility (CFR), Government is required to maintain prudent and sustainable levels of public debt and ensure that the fiscal balance is maintained at a sustainable level. In the current framework, the fiscal balance target is to reduce fiscal deficit to no greater than 3% of GDP. This is consistent with the Performance Convergence Criterion on the fiscal balance under the East African Community Monetary Union Protocol.

6.7.2 Public debt

A public debt is incurred when Government acquires goods or services and defers payment to a later date or outrightly acquires a loan domestically or overseas for a known purpose. In an effort to check on government excesses, the law sets limits to government appetite for expenditure. The rule is hinged on the need to maintain prudent and sustainable levels of public debt and how to manage fiscal risks. The target is for Government to ensure that in each of the financial years, the gross stock of public debt in net present value terms is maintained below 50% of GDP. This is consistent with the performance convergence criterion on debt under the East African Community Monetary Union Protocol, and Government’s benchmark under the Public Debt Management Framework (of 2013).

6.8 Sectors of the Economy

The macroeconomic framework is also popularly understood as the four sector model. This offers the whole working of the economy which comprises of the real sector, fiscal sector, external and financial sectors. Like most open economies or countries inclusive Uganda, the theoretical analysis is carried out for four interrelated sectors:

- The Government or fiscal Sector
- The External Sector
- The Real Sector (Households and Business Entities)
- The Finance Sector
Each of the sectors of the economy above is related to the other through relative prices. For instance the Government Sector is related to the Real (Households and firms Sector) through Wages and Prices policies. Government carries out taxation when raising resources and public spending of the same through the budget process (refer to Figure 5).

**The effective relative price is inflation which is the measure of the persistent change in prices of goods and service measure over a specified period of time.**

**Figure 5: Inter-relationship between the Four Sectors of the Economy**

The External Sector underscores the Country’s relationship with the rest of the world by way of providing goods and services for importation and market for exports; and these are related through the Terms of Trade. There are also foreign earnings in terms of loans and grants to Government as well as local firms, which have to be repaid with or without interest. All transactions with the outside world are paid for in foreign exchange (cash) through financial sector banks. **The relative price here is the exchange rate.**
The Financial Sector serves as a financial intermediary (Commercial Banks and non-bank) accepting deposits from Individuals, Firms and the Government and providing loans to them. The main relative price in this case is the interest rate.

Macroeconomic management involves generating policies by the Government to manage the relative prices mentioned above. Therefore, we have the following macroeconomic policies among others:

- Fiscal policy, the inflation policy, the exchange rate policy, the interest rate and monetary policy and the external debt policy and Wage and employment policy.

The analysis of actions of each sector is done through the Macroeconomic framework. The inter-relationship between the four sectors of the economy is illustrated in Figure 5, while the interrelationship among the Macroeconomic Accounts of the four sectors of the economy is illustrated in Figure 6.
Figure 6: Interrelations Among the Macroeconomic Accounts

REAL SECTOR

National Accounts
Consumption
  - Private Consumption
  - Government Consumption
Investment
  - Private Investment
  - Government Investment
Exports of Goods and Services
Imports of Goods and Services

GOVERNMENT SECTOR

Fiscal Accounts
Revenue
  - Grants
Expenditure
  - Current Expenditure
  - Capital Expenditure
Overall Balance
  Financing
    - Domestic Bank Borrowing
    - Domestic Non-Bank Borrowing
    - Foreign Borrowing (net)

EXTERNAL SECTOR

Balance of Payments
Current Account
  - Exports of goods and services
  - Imports of goods and services
  - Income (net)
  - Current Transfers (net)
    - Official
    - Private
Capital and Financial Account
  - Direct Investment
  - Portfolio investment, net
  - Other investments, net
Overall Balance
Change in Reserves

MONETARY SECTOR

Depository Corporations Survey
Assets
  - Net Foreign Assets
  - Central Bank
  - Other Depository Corporations
Liabilities
  - Net Credit to the Government
  - Claims on other sectors
  - Other items, net
  - Broad Money

6.9 Macroeconomic Policy in Uganda

Macroeconomic Policy in Uganda involves making targets for key macroeconomic variables for which the Government has indirect control; while making realistic estimates of other variables for which the Government has no direct control. It also involves making and implementing forecasts of the variables where government has direct control; then making strategies to meet the figures of the targeted and estimated variables and implementing forecasts. For example, let us assume that Inflation, Real GDP growth, Fiscal Deficit and Gross Reserves are targeted. This implies that Exchange rate, Interest Rate, Exports, Imports, External (private and public borrowing) are estimated. Hence all Budget Components, e.g. Tax revenue and Expenditure are forecasted; Government domestic borrowing and Money Supply will be forecasted.

6.10 Macroeconomic Policy Analysis

The role of the Analysts is to ensure that the targets are reasonable in terms of their relative impact on society. They should also ensure that estimates are realistic and attainable and that the forecasts do not impose undue burden on society. Each of the above actions affects sections of society in different ways. One must therefore, understand the impact of the measure and decide which sections of the society one wants to favor in respect to others. This underpins the concept of tradeoffs among policies.

Using the Government sector to illustrate the fiscal policy, a combination of revenues and expenditure yields an important variable known as the budget balance. This can be deficit or surplus budget depending on its outturn. When the projected expenditure of the government exceeds available revenue there is a fiscal deficit and when the projected revenues exceed projected expenditure of the government, there is fiscal surplus. In Uganda we can only talk about the fiscal deficit as budget expenditure always exceeds the revenues.
6.10.1 Fiscal Deficit and Macroeconomic Policy

Managing the fiscal deficit is the means by which government influences the macroeconomic objectives/targets through its expenditure that is over and above its revenue generation capacity. However, a large fiscal deficit whether locally or externally financed has got adverse effects on the economy. The effects includes an on slaughter inflation upsurge, collapse of the private sector and hardening of local currency or popularly known as appreciation of the exchange rate due to external financing inflows. Ultimately the fiscal deficit, if financed locally, pushes up interest rates as there are limited funds in commercial banks for private lending. The government’s deficit reduction strategy is therefore motivated by the following Macroeconomic considerations:

Macroeconomic objectives are an important subject in Policy Analysis. These macroeconomic objectives include:

- Low and stable inflation (Inflation is the rate at which prices rise affect the well being of people especially the fixed income earners and disrupt planning both for government and private individuals and entities)
- Employment creation to generate increased output.
- Low and stable interest rates to promote investment.
- Stable exchange rates to promote exports.
- Reasonable level of foreign exchange reserves.

6.10.2 Impact of the Fiscal Deficit

The impact of the fiscal deficit usually arises from its financing. Financing of fiscal deficits is by borrowing either domestically or from abroad (external borrowing). Local borrowing is by way of domestic arrears of various forms and issuance of Government paper (Treasury bills or bonds). This method deprives private sector of investable funds and pushes up the interest rate contrary to the macro objective and poverty eradication. Besides the interest cost is a further cost to the already overburdened budget. The purpose of the analysis is to ensure that this form of
financing is minimized. Deficit financing by way of foreign grants would be a preferred mode; but also has shortcomings, that is:

- Appreciation of the shilling with too much dollarization of the economy
- Non competitiveness of the exports due to hardening currency
- Have a high tendencies of inflationary pressures
- Lose or compromise of political sovereignty and space
- Associated with high costs in terms of conditionality and commitment charges.

In the absence of the above case scenarios, the country is forced to resort to the other forms of deficit financing, which are foreign or external financing (loans). On the other hand, for the case of foreign loans, large inflow of foreign resources has got adverse inflationary impact worse than grants as it contains loan repayment and attendant costs.

6.10.3 Wage and Employment Policy

Regulating Employment and the function of the labor market is essential for successful implementation of Macroeconomic policy and necessary for increased output. Government attains the employment objectives by setting minimum wages legally, providing employment to some people and permitting avenues and legal limits for collective bargaining.

**Impact:**

- Minimum wages may not be realistic, may be too low or too high from individual point of view and investor point of view. And may be contrary to free enterprise where wages are determined by the market.
- The government may not employ everybody, and salaries may be high or lower than private sector.
- Collective bargaining may have weak or strong unions. Weak unions may not serve the workers well, while very strong unions may discourage investors.
6.10.4 Inflation and Monetary Policy

Inflation is the rate at which prices rise for a given period of time. The target for inflation has both good and bad effects based on the level of targeting; to trigger multiple positive economic effects to the economy a single digit allowance is admissible. While a runaway inflation of two digits stifle productivity consequently leading to adverse effects to the economy. Thus, inflation targeting is made to permit predictability of both public and private investment. It should be noted that Inflation is caused when the supply of money is greater than the demand for money. Demand for money is the amount of money that people would like to have for the purpose of buying goods and services for keeping for future use (as a store of value). If banks supply more money there will be inflation.

6.10.5 Impact of Inflation Control

- Preserves the Purchasing power of the people’s money and savings; Good for fixed income earners who can predict consumption and savings.
- Stability in the investment climate with less price volatility
- Higher inflation may undermine the government budget
- Higher inflation erodes savings thus discouraging them may result in demands for increased wages.
- Very low inflation may affect employment and cause a recession.
- Constraints to further domestic absorption of foreign resources.

Since 1993, Uganda implemented a Quantity based-monetary policy framework which had two key assumptions. One was that there was a stable and predictable relationship between quantity of money and prices. The other key assumption was that there was a stable and exploitable relationship between the intermediate target, broad money, and the central bank’s policy instrument, which for Uganda’s case was base money. By year 2011, the stability and predictability of both money demand and velocity was no longer certain due to the transformation of the economy. In particular, there had been rapid growth and diversification of the financial system and products including innovations in electronic payments systems that made the accurate targeting of money quantity, untenable.
In July 2011, the Bank of Uganda reformed its monetary policy framework to meet the challenges of macroeconomic management generated by the transformation of the economy over the previous period. The reforms entailed the transition to an inflation targeting lite monetary policy framework.

The primary policy objective of inflation targeting lite monetary policy remained as the control of core inflation over a medium term horizon. The reforms were intended to strengthen implementation of Uganda’s medium term macroeconomic framework. As part of the process of introducing an inflation targeting lite monetary policy framework, the Bank of Uganda started setting an interest rate as the operating target of monetary policy. The interest rate is called the Central Bank Rate (CBR) and is used to guide the 7 day interbank interest rate.

The CBR is set once a month and is publicly announced, so that it clearly signals the stance of monetary policy during the month. The CBR is set at a level which is consistent with moving core inflation towards the Bank of Uganda’s policy target of 5 percent over the medium term.

6.10.6 Fiscal Deficit Policy

The fiscal deficit is a measure of domestic expenditure minus domestic revenue and grants.

Impact of a Fiscal Deficit

- A high fiscal deficit leads to rising interest rates as a result of bank financing of the deficit. A high Fiscal deficit leads to higher interest rates, government mops excess money by sale of treasury bills, bought by commercial banks, as they are less risky. In the process commercial banks have less money to lend to the private sector.
- There is an interest cost born by the Government on Treasury bills, money that could have been used on public programmes goes into payment of accruals to treasury bills holders.
- Non-bank financing of the fiscal deficit involves creation of arrears, where legitimate suppliers of goods and services to government are not paid on time.
- The Government Budget is insecure and unreliable external funds constitute a larger part of it; including concerns on political and economic sovereignty.
- There is a big question of public debt sustainability over time.
- Increased aid flows to fund the deficit have caused exchange rate appreciation, which may discourage exports.
- Some borrowed money is inefficiently applied or even squandered by public officials, making ability to pay impossible.

6.10.7 Exchange Rate Policy

The Uganda Government exchange rate policy is not to target a specific exchange rate; but to allow it to fluctuate with the market forces, within manageable limits that do not adversely disrupt foreign trade. Export promotion objectives drive intervention by government that sales or buys dollar/foreign exchange from the open market dealing through licensed foreign exchange operators and banks.

**Impact of the Exchange Rate policy**

- This type of a managed flexible exchange rate has minimized the existence of the black/parallel foreign exchange market.
- Makes foreign exchange readily available through licenses dealers for imports.
- No longer considered illegal to hold dollars.
- There are challenges of people who bring in and take out large sums of foreign exchange that is unrecorded making it difficult to estimate the foreign exchange movements.
- There is a risk of imported inflation.

6.10.8 Interest Rate Policy

Interest rate policy in Uganda is market determined. This takes the form of demand and supply of loanable funds. However, since July 2011, Bank of Uganda through the inflation targeting lite monetary policy tool, announces the Central Bank Rate (CBR) on a monthly basis, to give guidance to the commercial banks on the range for the lending rates.
Impact:
- The inflation is well managed this way.
- The Commercial Banks lending rates are sticky upwards.
- Very large margin between lending and deposit rates.
- Few people can afford to borrow at high interest rates.
- Absence of credible collateral makes lending difficult.
- Non-paying culture of people of Ugandans.
- Inside dealings by bank owners.
- Affected by borrowing operations of the Government.

6.10.9 External Debt Management Policy

Since external debt resources have supported the national budget and the economy for a long time, the external debt management has taken the form of macroeconomic policy. Key requirements for effective debt management strategies are:
- The appropriateness of the borrowing, which depends on the use of the resources. If they are for productive and investment purpose then, the debt will be worthwhile. If it is for unproductive uses then adverse effects will occur. Advocacy will aim at optimizing the use of borrowed funds.
- The Terms of the Borrowing. It is Government policy to borrow at highly concessional terms, in terms of interest, debt service, repayment and relief. Advocacy is to ensure that government sticks to the commitment.
- Effectiveness of external debt management depends on the appropriateness of other policies and the impact of the levels of borrowing to other macroeconomic variables. Advocacy is to ensure consistence of the policies.

6.10.10 Real and Per-capita GDP Growth Rate

Economists use the terminology per capita, to depict the equivalent amounts of a country’s wealth that would be due to each individual in an ideal world. On the other hand, this is informed by the Country’s Gross Domestic Product (GDP) growth after discounting for inflation. The rate of GDP growth on the supply side is determined by the rate of investment and quality of
investment in both public and private sectors of the economy. Thus Macro Economist urge for controlled population increase to realize rapid growth in per capita income.

**Impact:**

- There could be other external factors that make the growth targets untenable such as drought, high petroleum costs, fluctuation in international prices of primary products, financial constraints on the international level, etc.
- Lagging regions of the country, due to historical factors.
- Contingency plans should be made for the unforeseen factors otherwise the target is reduced.
- Poor targeting may affect other variables that were based on the GDP assumption such as taxes.
### ANNEX 1: BUDGET CALENDAR (as per the PFM Regulations, 2016)

<table>
<thead>
<tr>
<th></th>
<th>ACTIVITY</th>
<th>DUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Submission of annual budget performance reports by sectors to the Minister</td>
<td>31st July</td>
</tr>
<tr>
<td>2</td>
<td>Preparation of a macroeconomic framework and for the proceeding financial year with detailed underlying assumptions</td>
<td>6th September</td>
</tr>
<tr>
<td>3</td>
<td>Issuance of the first budget call circular.</td>
<td>15th September</td>
</tr>
<tr>
<td>4</td>
<td>Submission of sector budget framework papers by sectors to the Minister</td>
<td>15th November</td>
</tr>
<tr>
<td>5</td>
<td>Submission to Parliament of the Budget Framework Paper by the Minister</td>
<td>31st December</td>
</tr>
<tr>
<td>6</td>
<td>Submission by the votes of semi-annual performance reports to the Minister</td>
<td>31st January</td>
</tr>
<tr>
<td>7</td>
<td>Approval of the Budget Framework Paper by Parliament.</td>
<td>1st February</td>
</tr>
<tr>
<td>8</td>
<td>Publication of the Budget Framework Paper on the website of the Ministry</td>
<td>Within 30 Days after Parliamentary Approval</td>
</tr>
<tr>
<td>9</td>
<td>Issuance of the second budget call circular.</td>
<td>15th February</td>
</tr>
<tr>
<td>10</td>
<td>Submission of half-year financial statements by Accounting Officers to the Accountant General.</td>
<td>15th February</td>
</tr>
<tr>
<td>11</td>
<td>Preparation of a revised macroeconomic framework and with detailed underlying assumptions.</td>
<td>25th February</td>
</tr>
<tr>
<td>12</td>
<td>Submission of reports on the fiscal performance by the Minister to Parliament</td>
<td>28th February and 31st October</td>
</tr>
<tr>
<td>13</td>
<td>Submission of the final budget estimates by votes and state enterprises to the Ministry</td>
<td>28th February</td>
</tr>
<tr>
<td>14</td>
<td>Submission of the half-year financial statements by the Accountant General to the Secretary to Treasury</td>
<td>15th March</td>
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<tr>
<td>15</td>
<td>Submission of Ministerial Policy Statements to Parliament</td>
<td>15th March</td>
</tr>
<tr>
<td>16</td>
<td>Submission of draft budget estimates and ministerial policy statements to Parliament</td>
<td>1st April</td>
</tr>
<tr>
<td>17</td>
<td>Approval of annual internal audit workplan by the Audit Committee</td>
<td>1st April</td>
</tr>
<tr>
<td>18</td>
<td>Consideration and approval of the Appropriation Bill, other budget bills and the Annual Budget by Parliament</td>
<td>31st May</td>
</tr>
<tr>
<td>19</td>
<td>Designation and appointment of Accounting Officers</td>
<td>10th June</td>
</tr>
<tr>
<td>20</td>
<td>Issuance of Grant of Credit by the Auditor General</td>
<td>30th June</td>
</tr>
<tr>
<td>21</td>
<td>Issuance of Budget Execution Circular</td>
<td>30th June</td>
</tr>
<tr>
<td></td>
<td>ACTIVITY</td>
<td>DUE DATE</td>
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<tr>
<td>22</td>
<td>Effective date of Annual Budget</td>
<td>1st July of every financial year</td>
</tr>
<tr>
<td>23</td>
<td>Publication of the approved Annual Budget Estimates by the Minister</td>
<td>1st July of every financial year</td>
</tr>
<tr>
<td>24</td>
<td>Repayment of unexpended balance of a financial year into the Consolidated Fund</td>
<td>31st July of the following financial year</td>
</tr>
<tr>
<td>25</td>
<td>Submission of the annual budget performance by the Minister to Parliament</td>
<td>31st July of the following financial year</td>
</tr>
<tr>
<td>26</td>
<td>Submission of the report on the fiscal performance by the Minister to Parliament</td>
<td>31st August of the following financial year</td>
</tr>
<tr>
<td>27</td>
<td>Submission of accounts of the votes to the Accountant General</td>
<td>31st August of the following financial year</td>
</tr>
<tr>
<td>28</td>
<td>Submission of the consolidated accounts of Government by the Accountant General to the Minister and the Auditor General</td>
<td>30th September of the following financial year</td>
</tr>
<tr>
<td>29</td>
<td>Submission of the Charter for Fiscal Responsibility to Parliament</td>
<td>Within 30 Days of commencement of the first session of Parliament</td>
</tr>
<tr>
<td>30</td>
<td>Publication of Charter of Fiscal Responsibility.</td>
<td>Within 30 Days after Parliamentary Approval</td>
</tr>
<tr>
<td>31</td>
<td>Submission of the report on deviation from the Charter of Fiscal Responsibility to Parliament.</td>
<td>Within 30 Days after deviation</td>
</tr>
<tr>
<td>32</td>
<td>Publication of the report on deviation from the Charter of Fiscal Responsibility.</td>
<td>Within 30 Days after Parliamentary Approval</td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance Planning and Economic Development*