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This action is funded by the European Union

ANNEX 2

of the Commission Decision on the Annual Action Programme 2016 for Uganda
to be financed from the 11th European Development Fund

Action Document for Support to Uganda's Financial Management and Accountability Programme (FINMAP III)

1. Title/basic act/ CRIS number	Support to Uganda's Financial Management and Accountability Programme 'FINMAP' (UG/FED/037-952) financed under the 11 th European Development Fund (EDF)	
2. Zone benefiting from the action/location	Uganda The action shall be carried out in multiple (countrywide) locations. The project team will be based in Kampala.	
3. Programming document	Uganda – 11 th EDF – National Indicative Programme (NIP) 2014-2020	
4. Sector of concentration/ thematic area	Good Governance	DEV. Aid: YES ¹
5. Amounts concerned	Total estimated cost: EUR 62 241 000 Total amount of EDF contribution EUR 8 000 000 This action is co-financed in joint co-financing by: - KfW for an amount of EUR 13 000 000; - DFID for an indicative amount of GBP 6 100 000; - Norway for an indicative amount of NOK 17 500 000; - Denmark for an indicative amount of DKK 174 000 000; This action is co-financed in parallel by the Government of Uganda for an indicative amount of EUR 28 066 000	
6. Aid modality(ies) and implementation modality(ies)	Project Modality through Indirect Management with the Government of Uganda	
7 a) DAC code(s)	15111 Public Finance Management-60% 5110 Public Sector Policy and Administrative Management- 10%; 15112 Decentralisation and support to subnational Government-30%	
b) Main Delivery Channel	10000 Public Sector Institutions	

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(Flagship 6: Resource Transparency Initiative); Flagship 10: Domestic Revenue Mobilisation Initiative for Inclusive Growth and Development.			
	SDG 17: To revitalise the global partnership for sustainable development SDG 16: To promote just, peaceful and inclusive societies; and SDG 8: To promote inclusive and sustainable economic growth			

SUMMARY

In line with the Agenda for Change, the 11th EDF National Indicative Programme (NIP) for Uganda prioritises the strengthening of the governance sector. The proposed action is to contribute to poverty reduction and inclusive growth in Uganda by reinforcing macroeconomic stability and strengthening the accountability and transparency of Public Finance Management (PFM). The action will support Government of Uganda in achieving its strategic objectives as stated in the Vision 2040 and the second National Development Plan (NDP II), which emphasise PFM as an important enabler.

The main component would comprise continued support to Government of Uganda's Financial Management and Accountability Programme (FINMAP) in strengthening PFM at central and local government levels and ensure the efficient, effective and accountable use of public resources as a basis for improved service delivery. Expected results include strengthening (i) budget credibility, including increased domestic revenue mobilisation; (ii) budget controls; and (iii) improved compliance with PFM rules and regulations.

FINMAP, now in its third phase (2014-2018), has been the main vehicle for implementation of Government of Uganda's PFM reform strategy since 2007. The EU has contributed EUR 4 000 000 to FINMAP I and II, jointly financed by the Government of Uganda and development partners through a pooled basket fund. The use of a basket fund managed by a Project Management Unit (PMU) within the Ministry of Finance, Planning and Economic Development (MoFPED) has enabled a high degree of harmonisation, alignment and ownership, showing its merit in terms of policy dialogue and results. Continued 11th EDF support through indirect management by the partner country requires a new

compliance pillar assessment of the beneficiary, but would be an important EU commitment in terms of strengthening use of country systems, in particular given the consideration of a Sector Reform Contract (SRC) for governance and rule of law in the 11th EDF.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Uganda is a unitary state, comprising of the national government and four levels of sub-national government, with the President as head of government. Overall, Uganda has a sound institutional and regulatory framework in place in terms of democracy, human rights (including gender), rule of law, access to justice, accountability, civil society and media. However, a large implementation gap remains, and the political economy is characterised by a political patronage system dominated by President Museveni and the National Resistance Movement (NRM) regime, incumbent since 1986. Multi-party elections have been held since 2006, with the latest Presidential elections in February 2016. Uganda has witnessed significant economic growth and poverty reduction over the last two decades, although the post 2011 election period experienced a period of unstable inflation. Uganda's recent economic performance has been favourable with gradual gross domestic product (GDP) growth recovery, but still below the medium target and with some downside risks. Reduction in the absolute number of poor people is marginal due to population growth, and hides substantial spatial variation (with Northern Uganda still lagging behind) and rising inequality.

The Government of Uganda has been pursuing strategic reforms in public financial management since the early 1990s, aimed at supporting the national goal of poverty eradication through good governance, sustainable and inclusive socio-economic development and a stable macroeconomic environment. Since the inception of the National Development Plan in 2010, the Government of Uganda has prioritised investment spending on roads and energy projects. This had added importance to investing in PFM reforms, to ensure that resources are mobilised and used efficiently to meet the increasing spending requirements for infrastructure development, as well as sustaining the required levels of social sector spending and public service delivery amidst one of the highest population growth rates (c. 3% per annum) in the world.

Since 2007 the prime implementation framework for PFM reforms is the Financial Management and Accountability Programme (FINMAP), jointly financed by the Government of Uganda and development partners² (DPs) through a pooled basket fund. FINMAP covers the entire PFM continuum including fiscal planning, revenue collection and management, budget preparation and execution, accounting and reporting, and oversight and scrutiny. The use of a multi-donor pooled funding arrangement managed by a Project Management Unit (PMU) within the Ministry of Finance, Planning and Economic Development (MoFPED) has enabled a high degree of harmonisation, alignment, and ownership, in line with aid effectiveness principles. The EU has contributed EUR 4 000 000 to FINMAP I and II, of which EUR 3 060 000 in the 10th EDF.

PFM reforms suffered a 'shock' in 2012 when the Auditor General released two special reports revealing corruption cases in the Office of the Prime Minister and Ministry of Public Service. Since the 2012 corruption scandals, development partners, civil society and the International Monetary Fund (IMF) have commended MoFPED steering and accelerating a wide range of PFM reforms to improve transparency and accountability of its public finances.³

² DPs included UK Department for International Development (DFID), Germany Kreditanstalt fuer Wiederaufbau – (KfW), EU, Ireland, Denmark, Norway and Sweden. The World Bank supported specific activities under the programme until 2012.

³ This includes improved budget credibility (reduction of arrears, removal of inefficient VAT and income tax exemptions), strengthened internal controls (Integrated Financial Management System (IFMS), decentralisation and improved payroll

A recent budget support (2004-2013) evaluation by the EU and the World Bank (WB) confirmed strong commitment and achievements in PFM reform over the last decade.

1.1.1 Public Policy Assessment and EU Policy Framework

Uganda has a sound PFM legislative framework, with the most recent being the 2015 PFM Act, which repealed the Public Finance and Accountability Act 2003. Both the PFM Act and the Constitution give the MoFPED the mandate to plan and manage public finances.⁴ The comprehensive new law includes a new budget calendar and increased emphasis on gender and equity responsive budgeting, an oil revenue management framework, strengthened internal and external expenditure controls and accountability procedures.

Uganda has a highly elaborate institutional structure for PFM reform. The proposed PFM reforms will be implemented as a major component of the Accountability Sector Strategic Investment Plan (ASSIP) 2014-2019, launched in August 2014.⁵ Both Uganda's Vision 2040 and the second National Development Plan (NDP) (2015/16-2019/20) emphasise PFM as an important enabling sector, consistent with EU development policies such as the Agenda for Change. A new PFM strategy (2014-2018) was launched in August 2014 as a guiding policy framework for reform efforts in Government, informed by various recent PFM studies such as the 2012 Public Expenditure Financial Accountability (PEFA). The revised Strategy is well aligned to the NDP, and will guide the implementation of a third four year phase of FINMAP (July 2014-June 2018). The main objective is to strengthen PFM at central and local government levels and ensure the efficient, effective and accountable use of public resources as a basis for improved service delivery to create wealth and enhance economic growth.

FINMAP III, the main implementation vehicle of the PFM reform strategy, has a broad and holistic approach including different government and accountability institutions. Overall focus is on three main outcomes: strengthening budget credibility, improving controls and compliance. Overall, the PFM sectoral policies are well defined, responding to identified opportunities and challenges in Uganda, and complimentary to other public service reforms. MoFPED steered the in-house design of FINMAP III, with external support from development partners. A Programme Implementation Document (PID) has been approved, including situational and risk analysis, and a corresponding Monitoring and Evaluation (M&E) framework with outcome, output and activity indicators linked to the key strategic objectives as set out in the PFM reform strategy.

1.1.2 Stakeholder analysis

MoFPED takes a leading role in coordinating PFM reform initiatives, including FINMAP, which is the main vehicle for implementation of the PFM reform strategy. Several other institutions are involved as key stakeholders such as the Uganda Revenue Authority (URA), Public Procurement and Disposal of Public Assets Authority (PPDA), Ministry of Local Government (MoLG), Ministry of Public Service

and pension management), reduced oversight queries and better cash and debt management (phased introduction of a treasury single account).

⁴ The other legal framework for budget formulation, execution and audit is provided by the Constitution (1995); the Budget Act (2001) which empowers Parliament; the Public Procurement and Disposal of Public Assets Act (2003) and its amendments (2008); and the National Audit Act (2008).

⁵ The five strategic objectives are (i) to strengthen collaboration and cooperation amongst sector institutions; (ii) to enhance planning, mobilisation and allocation of Government resources; (iii) to improve compliance with accountability rules and regulations; (iv) to strengthen public demand for accountability; and (v) to prevent, detect and eliminate corruption.⁵

(MoPs), Office of the Auditor General (OAG) and Parliament. These stakeholders vary greatly in the strength of their mandate, their institutional capacity and leadership.⁶

A Public Expenditure Management Committee (PEMCOM) provides a high-level forum meeting quarterly for strategic policy guidance and for monitoring progress in PFM reforms. The PEMCOM is chaired by the Permanent Secretary/Secretary to the Treasury (PS/ST) and co-chaired by the PFM Development Partner Working Group (DP WG) Chair (currently the EU). A Programme Technical Committee (PTC), chaired by the Deputy Secretary to the Treasury, consists of the FINMAP component managers and development partners, providing technical and policy guidance to the FINMAP programme.

Non-state actors play an important role in the demand side of accountability, i.e. holding the state to account over PFM, resource allocation and service delivery. A vocal civil society and relatively vibrant media – although under increased pressure - is increasingly focused on the need to strengthen governance, in particular public finance management and corruption. Key civil society actors involved in PFM are the Civil Society Budget Advocacy Group (CSBAG), which actively engages with MoFPED in shaping the debate, for example on the annual budget process, PFM reforms and the 2015 PFM Act. Since mid-2015 CSBAG represents civil society (including women's organisations) as an active member of the PEMCOM.

1.1.3 Priority areas for support/problem analysis

The proposed project builds on lessons learnt from EU support provided under the 10th EDF. The 2014-2018 PFM Reform Strategy, informed by studies including the PEFA (2012) and the Mid Term Review of FINMAP II (2013) and based on wide consultations with the Government of Uganda and development partners, confirmed that despite significant investments, challenges still remain with budget (i) credibility, (ii) controls and (iii) compliance.

- (i) Key challenges in *budget credibility* include inadequate domestic revenue mobilisation⁷ due to low tax compliance, a large informal sector, inadequate tax administration capacity and low local PFM capacity and revenue base. Inadequate revenue forecasting, expenditure planning and costing for critical commitments also affects budget implementation and leads to frequent supplementary budgets, undermining budget credibility.
- (ii) Strengthening financial management systems and broadening their coverage (in particular the roll-out of the Integrated Financial Management System (IFMS) in central and local governments) has been a key achievement of FINMAP, improving fiduciary assurance and *internal controls* of Government expenditure. However, challenges remain with PFM IT system security and the lack of a coherent integration of the various PFM systems. Improving cash management by the implementation of the Treasury Single Account (TSA) and strengthening public procurement also remain priority reforms.

⁶ The Ministry of Finance, Planning and Economic Development and semi-autonomous institutions such as the OAG and URA are generally considered the most effective institutions, having benefited from strong leadership, donor support and capacity building. Ministry of Public Service and local governments are fairly weak both in leadership and actual capacity. The oversight function of Parliament and its committees remains constrained despite capacity building measures.

⁷ Uganda's tax revenue collections at 13% of (rebased) GDP remain the lowest in the East African region, despite recent efforts to improve revenue administration, widen the tax base and eliminate VAT and income exemptions.

- (iii) Finally there is a large *compliance* gap with regard to PFM rules and regulations due to the lack of an effective sanctioning regime, which risks undermining the gains from PFM reform (risk of political interference) and further loss of public funds due to financial mismanagement.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Political interference in PFM and accountability institutions restricts their ability to implement their mandate.	H/M	Continued high level policy dialogue. Possible Sector Reform Contract (SRC) budget support dialogue and framework. Continued support to strengthening civil society oversight.
Corruption, particularly in procurement, due to weak controls and compliance. Limited political will to tackle non-compliance.	H	Enforcement of administrative sanctions in line with 2015 PFM Act and related regulations for its implementation. Complimentary EDF-11 Strengthening Uganda's Anti-corruption Response (SUGAR) support and possible SRC on governance.
Reputational risk from use of country systems due to fraud in the FINMAP programme or elsewhere.	H/M	Successful pillar assessment and possible adoption of mitigating measures. Ex-post disbursement based on required conditions/outputs.
Inadequate funding to support reforms. Reform fatigue or 'cherry-picking' of DP support due to low risk appetite.	M	PFM remains high on the agenda of DPs and the IMF. Future EU support is an important signal to other DPs. Signature of a Memorandum of Understanding (MoU) between the Government of Uganda and FINMAP III Development Partners.
Staff attrition from the FINMAP III PMU and other reform programmes may slow/impede progress.	M	Regular monitoring of competitiveness with private sector will provide early warning of need to take action.
PEMCOM does not comprehensively or effectively steer the PFM reform agenda.	L/M	Improve the quality of strategic policy dialogue at the PEMCOM. Agenda and membership has been realigned to reflect the full scope of its mandate.
Assumptions		
<ol style="list-style-type: none"> 1. The PFM Strategy will be implemented. The amended PFM Act 2015 will be adhered to by MoFPED. 2. The Government of Uganda continues to improve sustainability of PFM reforms, i.e. increased Government funding and commitments to PFM activities during FINMAP. 3. PFM institutions are not subject to widespread corruption and collusion or other influence that prevents them from taking action. 4. Continued high levels of budget transparency and oversight, detecting and deterring corruption. Continued civil society scrutiny and cooperation with MoFPED. 5. Effective leadership and continued commitment to PFM reforms by MoFPED. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Recent evaluations of PFM performance⁸ have commended Government's high level of commitment, and reported that with FINMAP a credible and relevant joint programme to improve PFM and procurement systems is in place. A recent budget support evaluation (2004-2013) by the EU and the World Bank confirmed strong commitment and achievements in PFM reform over the last decade, stating that 'PFM was central and increasingly important to budget support since 2004'. By contrast, progress in domestic revenue mobilisation was weak until 2014, in part due to the political economy, and greater emphasis on increasing domestic resources is required in the future. The updated PFM reform strategy and FINMAP III programme clearly incorporate some of the findings and recommendations from recent evaluations. A UK Department for International Development (DFID) funded Overseas Development Institute (ODI) review of FINMAP I and II concluded that the programme had made significant contributions to strengthening PFM systems, in particular the roll out of improved financial systems adapted to the needs in Uganda. The review recommended improving mechanisms for recruitment of technical policy experts, increased integration between PFM systems, and better planning to take on emerging priorities and adapt reform processes to lessons learnt during implementation. Agreement has been reached on actions based on the findings from the report. This includes the adoption of a new Priority Reform Action Matrix (PRAM) jointly agreed with PEMCOM, to guide FINMAP annual planning and place emphasis on integration of systems and agreed priorities.

3.2 Complementarity, synergy and donor coordination

The Good Governance focal sector targets accountability, employing a portfolio approach to address all aspects of the 'accountability chain'. As the NIP outlines, this chain comprises (i) State Management (ii) Oversight (iii) Sanction, and thus necessitates support to both state and non-state actors.⁹ It is underpinned by a Rights-Based Approach that focuses on outcomes for rights holders, in particular those that are most impacted by lack of accountability (disadvantaged, women, children, etc.). On the supply side, the FINMAP and Strengthening Uganda's Anti-corruption Response (SUGAR) programme will provide support to Public Finance Management and Anti-Corruption actions respectively. Support to the Democratic Governance Facility (DGF) will focus primarily (though not exclusively) on the demand side of accountability, through support to the non-state sector, accompanied by the NIP's civil society budget allocation. A governance component of the Northern Uganda Integrated Programme (NORD) will provide capacity building support in PFM to both supply and demand side actors at a local level.

⁸ 2012 Central Government and Local Government PEFA; 2013 FINMAP II Mid-Term Review; 2014-2018 PFM Reform Strategy; annual IMF Policy Support Instrument and DP Joint Assessment Framework (JAF) assessments; 2015 draft ODI FINMAP review; Tax Administration Diagnostic Assessment Tool (TADAT) 2015

⁹ A Sector Reform Contract (SRC) is envisaged (under the Annual Action Plan 2017) as an overall umbrella to the governance portfolio, possibly addressing higher-level structural/horizontal issues, and aiming to measure Uganda's success in closing the 'implementation gap' between institutional framework and functional efficacy. A technical assistance component of the SRC will be envisaged to provide targeted support to institutions not covered by other projects (primarily in the Justice, Law & Order Sector). The SRC would strengthen our credibility as partners, increase our legitimacy and leverage, and provide both framework and benchmarks for assessing Government performance. An SRC would also improve the predictability of financing and use of country systems, by introducing clear and measurable indicators. While the political, financial and operational risks would be higher than with a project approach, the SRC would also promote the visibility of the EU as a lead donor.

Both FINMAP and SUGAR will provide technical assistance to Government entities, in broad terms relating to the management of public funds – however they come from different ends of our accountability chain, FINMAP focusing on state management (in particular improved compliance by strengthened PFM systems), SUGAR on detection and sanction (in the event of mismanagement/corruption). Their proximity is intentional, to ensure the chain remains interlinked, and initiatives are underway to ensure that both programmes are fully coordinated and complementary.

EU joint programming exercises have identified 'Governance/Accountability' as a first priority area, and the majority of EU Member States are active. Development partners coordinate in a number of fora, including the Accountability Working Group, Democracy and Human Rights Working Group, and a number of PFM related groups. A joint donor approach on Accountability was agreed in 2013. In the area of PFM, donor coordination is structured around the PFM working group, while dialogue with the Government is facilitated by PEMCOM. The FINMAP sector policy support programme is characterised by a well-established joint financing mechanism, enhancing donor coordination and alignment with Government policies. Most of the DPs currently supporting FINMAP III are EU MS. The World Bank is targeting PFM reform actions under its planned budget support programme (Development Policy Operation) for FYs 2015-16 to 16/17.

3.3 Cross-cutting issues

Despite the notable PFM improvements attained over the years, concerns still exist as to the failure of these gains in translating into markedly improved service delivery. Corruption remains a major impediment in this regard. Women and households in particular suffer disproportionately, as they are directly confronted with poor service delivery in the health, education and local governance sectors, due to lack of fiscal space to implement development objectives; poor resource allocation and absorption; financial mismanagement and corruption. The recent budget support evaluation also concluded that greater gender equality and equity should be included more in sectoral programmes in Uganda, as it would directly support poverty reduction. Uganda has made some progress in the creation of a statutory enabling environment for gender budgeting, as a measure to promote gender equality and women's rights. DFID, which co-funds FINMAP, is formulating a new programme¹⁰ which, amongst others, will support the Government of Uganda to integrate gender and equity in PFM in compliance with the 2015 PFM Act. A service provider will provide technical assistance and capacity building to the Government of Uganda (particularly to MoFPED, Ministry of Gender, Labour and Social Development and the Equal Opportunities Commission) for implementing gender equity in public financial management. FINMAP will be encouraged to work closely with this programme on gender related issues.

The proposed FINMAP III project is expected to impact favourably on both economic and democratic governance, facilitating enhanced Parliamentary, media and civil society oversight of NDP-II implementation. Environmental sustainability is not a main target of the intervention.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG target 17 to revitalise the global partnership for sustainable development, but

¹⁰ Support to Uganda's Response on Gender Equality (SURGE)

also to promote progress towards Goal 16 to promote just, peaceful and inclusive societies, and Goal 8 to promote inclusive and sustainable economic growth. This does not imply a commitment by the Government of Uganda benefiting from this programme.

In line with the Agenda for Change, the general objective of the proposed action is to contribute to poverty reduction and inclusive growth in Uganda by reinforcing macroeconomic stability and strengthening accountability and transparency of public finance management in Uganda. The proposed action will support the Government of Uganda in achieving its strategic objectives as stated in the Vision 2040 and the NDP II, which emphasises PFM as an important enabling sector.

The specific objective is to support Uganda in strengthening PFM systems and compliance at central and local government levels to ensure the efficient, effective and accountable use of public resources as a basis for improved service delivery.

The 2014-2018 PFM Reform Strategy identifies three priority outcomes to be achieved: enhancing budget credibility, improving budget control, and strengthening compliance to rules and regulations. The Financial Management and Accountability Programme (FINMAP) is the main vehicle for the implementation of the PFM reform strategy (2014-2018), which guides PFM reforms in Uganda. The programme aims to achieve the following six results:

- (i) Enhanced revenue mobilisation, realistic macroeconomic forecasting, improved management of debt and external revenue resources, and strengthened capacity to analyse fiscal policies;
- (ii) A more credible budget process delivering comprehensive budget documentation reflecting national policy objectives with efficient and transparent resource allocation;
- (iii) Strengthened financial management systems for budget execution, accountability and reporting; including accurate and timely payroll and pension payments integrated with personnel management systems;
- (iv) Improved revenue collection and strengthened public finance management systems and compliance with regulations in Local Governments;
- (v) Improved efficiency, effectiveness and transparency in public procurement and contract management, facilitated by clear rules and procedures;
- (vi) Strengthened internal controls and enhanced capacity of oversight systems leading to increased accountability and compliance with PFM laws & regulations

The programme aims to improve compliance through more effective follow up of audit recommendations, combined with administrative sanctions, which have been strengthened under the 2015 PFM Act. FINMAP is supporting MoFPED to monitor the performance of Government of Uganda accounting officers to enable decisions on sanctions, with complimentary support from SUGAR to update Public Service Regulations with effective sanctioning procedures.

Attention should be paid to domestic revenue mobilisation, as Uganda has the lowest tax-to-GDP ratio in East Africa. Under the new PFM Reform Strategy the Uganda Revenue Authority (URA) has been made a full member of PEMCOM, leading to increased policy attention and dialogue on tax policy and tax administration. In the past FINMAP has provided support on tax policy analysis and reform. From 2015/16 assistance was extended to URA for capacity building of the audit function to promote compliance. Additional complimentary institutional support to URA through FINMAP is currently under consideration based on the findings from the 2015 Tax Administration Diagnostic Assessment Tool (TADAT) assessment. Alternatively, in concurrence with FINMAP support, increased policy

dialogue and focus on domestic revenue mobilisation would form a key component of any future Sector Reform Contract (SRC).

4.2 Main Activities

Result 1- Macroeconomic component: (i) Develop an improved macro-economic model for forecasting; and, (ii) Review tax legislation and capacity building for tax policy and audit officials.

Result 2 – Budget component: (i) Manage transition to Programme-Based Budgeting; (ii) Improve systems and capacity for public investment management; (iii) Capacity building for budget planning and public private partnerships.

Result 3 – Financial Management Systems: (i) Roll out Integrated Financial Management System (IFMS) and Integrated Personnel and Payroll System (IPPS) in central and local Governments; (ii) Introduce a Treasury Single Account system; and, (iii) Draft new PFM Regulations

Result 4 – Local Government: (i) Training and systems for revenue collection; and, (ii) Capacity building for PFM; and, (iii) Strengthen internal audit capacity and systems.

Result 5 – Procurement: (i) Training in procurement and contract management; (ii) Update legislation and regulations; and, (iii) Procurement audits and follow up to increase compliance.

Result 6 – Oversight: (i) Capacity building for internal audit systems; (ii) Construct regional offices for the Auditor General; (iii) Provision of IT Audit software; and, (iv) PFM training for Parliamentary Committees.

Detailed annual work plans and budgets are prepared each financial year in consultation with development partners. This allows an element of flexibility for emerging priorities. A Management Support Unit (MSU) in MoFPED facilitates planning and implementation of the FINMAP programme.

4.3 Intervention logic

The programme supports the introduction of improved financial management systems, including revenue, budgeting, personnel and payroll, public investment and procurement in all Government entities at central and local level. These systems are designed to facilitate management oversight and controls, which along with updated regulations, provide potential for improved efficiency in implementation of projects and delivery of services. There is currently a major emphasis on integration of PFM systems, in order to realise enhanced value for management through efficiency and quality of information. Capacity building for officials, data security, and administration systems are critical to ensure sustainability. The investment in PFM systems aims to facilitate accurate and timely accountability for use of public resources by Accounting Officers, leading to greater transparency.

In addition, the programme supports improved capacity for oversight through both internal and external audit and monitoring of compliance with procurement regulations. The role of internal audit will be enhanced through use of international standards, the introduction of an Internal Auditor General to provide an overall strategy and reporting structure, and capacity building for the decentralised audit system across Government, including independent Audit Committees. Compliance with procurement regulations remains a key challenge, and the programme will support the Public Procurement and Disposal of Public Assets Authority (PPDA) in procurement audits and follow up. The role of external audit will be enhanced through introduction of forensic and IT audits, systems for follow up of recommendations, and construction of regional offices to improve coverage. Assistance will be provided to Parliament to facilitate understanding of PFM issues and the role of oversight committees in ensuring accountability for public resources. The programme will promote improved

collaboration between oversight entities for greater impact on compliance and the fight against corruption.

5 IMPLEMENTATION

5.1 Financing Agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 36 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

5.3 Implementation of the budget support component **N/A**

5.4 Implementation modalities

5.4.1 Indirect Management with the Government of Uganda

c) Implementation through a pool fund

This action may be implemented in indirect management with the Ministry of Finance, Planning and Economic Development (MoFPED) in accordance with Article 58(1) (c) of the Regulation (EU, Euratom) No 966/2012 applicable in accordance with Article 17 of Regulation (EU) 323/323. This implementation entails strengthening accountability and transparency of public finance management in Uganda. This implementation is justified because the Ministry of Finance Planning and Economic Development has established an effective Project Management Unit (PMU¹¹), which has a positive track record in Uganda in coordinating and delivering PFM reforms through joint co-financing by development partners and Government of its national PFM reform programme, the Financial Management and Accountability Programme. Channeling financial support through a multi-donor pooled fund, managed by the PMU, has been the funding mechanism by the EU and other contributing development partners to help finance the previous phases of FINMAP. It has enabled a high degree of harmonisation, alignment, and ownership; making Government's reform efforts more effective and sustainable, aided by the predictability of resources coming from the pooled funding arrangement.

The entrusted entity would carry out the following budget-implementation tasks: launching calls for tenders and proposals; definition of eligibility, selection and award criteria; evaluation of tenders and proposals; acting as contracting authority concluding, monitoring and managing contracts, carrying out payments, and recovering moneys due.

¹¹ Located within the Ministry of Finance and designated by it as the implementing entity, headed by a Programme Coordinator in charge of a technical assistance team.

The entrusted Partner Country's organisation is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012, applicable in accordance with Article 17 of Regulation (EU) 323/323. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the Partner Country's organisation[s] can be entrusted with budget-implementation tasks under indirect management.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 1 July 2016 because this is the start of the Ugandan financial year 2016/17, which runs until 30 June 2017. The entry into force of the financing agreement, on the condition of a positive compliance pillar assessment, is expected by end 2016 and thus within the mentioned fiscal year, which constitutes the third year of implementation of FINMAP III. As an extension of FINMAP beyond the current implementation period until end of 2018 has not yet been decided, the remaining period between the signature of the financing agreement and the end of the programme would be less than 24 months. Without the proposed retroactive eligibility of costs, there would be a considerable risk that the committed funds of EUR 8.0 million could not be fully absorbed by the programme and that considerable *reste à liquider* (RAL) be generated as a result.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

Support to FINMAP III (2014 - 2018) basket fund	EU contribution (amount in EUR)	Indicative third party¹² contribution, in currency identified
5.4.1 Indirect Management with the Government of Uganda	7 000 000	EUR 26 175 000
Component 1: Macroeconomic management	221 856	EUR 845 690
Component 2: Budget reform	265 176	EUR 1 113 315
Component 3: Financial management systems	2 389 700	EUR 5 676 224
Component 4: PFM for local governments	2 051 113	EUR 7 763 066
Component 5: Public procurement	208 316	EUR 881 769
Component 6: Oversight and compliance	1 417 777	EUR 8 223 387
Component 7: Programme coordination	446 062	EUR 1 671 549
5.9 Evaluation, 5.10 Audit	200 000	
5.11 Communication and visibility	100 000	
Contingencies	700 000	
Totals	8 000 000	26 175 000

5.7 Organisational set-up and responsibilities

EU support to the Ministry of Finance, Planning and Economic Development will be implemented through an established joint co-financing mechanism and dialogue platforms, the procedures for which are firmly established in the FINMAP III Programme Implementation Document and the FINMAP III Memorandum of Understanding (MoU). Development partners already contributing to the FINMAP III basket fund are Germany Kreditanstalt fuer Wiederaufbau (KfW), United Kingdom (DFID); Denmark, and Norway. The Memorandum of Understanding (MoU) between Government and Development Partners sets out the organisational arrangements and responsibilities for the management of the pooled fund. The Deputy Secretary to Treasury (DST) in MoFPED is the task manager of FINMAP. A Management Support Unit (MSU) located within MoFPED assists with planning, accounting and monitoring implementation. Component managers in the respective institutions have been appointed by the Task Manager to take the lead in managing reform actions. The MSU works closely with component managers to put together the annual work plans and budgets and coordinate reports on progress. The MSU supports the components in undertaking procurement activities in a timely manner, who must take the lead in developing technical specifications and terms of reference.

Policy dialogue on PFM reforms builds upon two co-ordination and discussion forums, one at the strategic and one at the technical level. The management of the FINMAP programme is overseen by a

¹² KfW (Germany), DFID (UK); Norway; Denmark.

Programme Technical Committee (PTC), which meets quarterly chaired by MoFPED and co-chaired by the DP chair of the PFM Working Group. The PTC provides technical oversight and guidance to the programme. The Public Expenditure Management (PEMCOM) committee, chaired by the Permanent Secretary/Secretary to the Treasury (PS/ST) and co-chaired by the PFM DP Chair, meets quarterly after the PTC as a joint forum for strategic policy dialogue, coordination on the PFM reform strategy, performance monitoring, and formal approval of FINMAP work plans, budgets, and procurement plans. PEMCOM participation includes representatives of Ministry of Finance, the EU and other development partners contributing to PFM reforms; and other stakeholders of the reform such as the Ministry of Public Service, Public Procurement and Disposal of Public Assets Authority, Office of the Auditor General, Ministry of Local Government, Uganda Revenue Authority.

See also 5.4.1

5.8 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of FINMAP will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular quarterly and annual progress reports and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a mid-term and final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission or through a joint mission via an implementing partner. This will be decided jointly with other financing partners supporting the programme.

In line with the principles of the FINMAP III MoU, there will be a joint mid-term review and end of Programme review by Government of Uganda and the contributing DPs. The reviews will give a summary of outputs and activities carried out, achievements compared to the goal and objectives, an assessment of the efficiency of the FINMAP Programme, as well as progress against the M&E framework. A joint Public Expenditure and Financial Accountability (PEFA) assessment will be carried out every three years (the next PEFA to be completed by early 2017).

Independent assessments of progress in the implementation of the FINMAP programme may be conducted as decided upon by the Ministry of Finance and contributing DPs. The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project promises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluation and, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services could be concluded in the second half of 2018. This ex-post evaluation could be carried out for accountability and policy revision purposes.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

In line with the principles of the FINMAP III MoU, the Government of Uganda's Auditor General will audit the FINMAP Programme Accounts on an annual basis. The terms of reference for the audit will be jointly approved with the DPs. The audit will be carried out in accordance with internationally recognised practices, which will be stated in the opinion. In addition, a management letter will be issued where internal control and other management issues will be highlighted. The annual audit report will be presented to DPs within six (6) months after the closure of the fiscal year. The cost of the audit, whether conducted by the Auditor General or subcontracted, will be covered by Programme Funds. The audit system for FINMAP is detailed in Section XI of the FINMAP III MoU. Development Partners may request Government of Uganda to arrange an audit by an independent auditor acceptable to the DPs. In the event that such an audit is required it will be discussed with the Auditor General.

Indicatively, one contract for audit services shall be concluded through direct management in the first half of 2019.

5.11 Communication and Visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of the implementation and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Additional communication and visibility activities will be carried out by the Commission by way of direct management. Indicatively one service contract for communication and visibility actions shall be concluded in the second trimester of 2017.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR FINMAP III) * ¹³

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To contribute to poverty reduction and inclusive growth in Uganda by reinforcing macroeconomic stability and strengthening accountability and transparency of public finance management.	i) % population living on less than 1 USD per day (NDP II) ii) PEFA score for Aggregate expenditure out-turn to approved budget (PI-1) iii) PEFA score for Composition of expenditure out-turn to approved budget (PI-2) iv) PEFA score for Effectiveness of payroll controls (PI-18) v) PEFA score for Transparency, competition and complaints in procurement (PI-19) vi) PEFA score for Effectiveness of internal audit control (PI-20) vii) PEFA score for Legislative scrutiny of external audit reports (PI- 28) viii) Open Budget Index (OBI) score (out of 100) (category)	i) FY 2013/14 – 19.7% PEFA 2012 ii) C iii) D+ iv) D+ v) D+ vi) C vii) D+ OBI 2015 viii) 62 (substantial budget information)	i) FY 2017/18 target National Development Plan (NDP II) 16.2% PEFA 2020 ii) B iii) C iv) C v) C vi) B vii) C OBI 2018 viii) 70+ (substantial to extensive budget information)	i) Uganda National Household Survey – Uganda Bureau of Statistics (UBOS) ii - vii) PEFA assessments in 2016 and 2020 viii) Open Budget Index	
Specific Objective: Outcome	To support Uganda in strengthening PFM systems and compliance at central and local government levels to ensure the efficient, effective and accountable use of public resources as a basis for improved service delivery.	i) Tax revenue as a % of GDP* ii) % central government entities with unqualified audit opinions iii) % local governments with unqualified audit opinions	2014/15: i) 13% ii) 78% iii) 90%	2017/18: i) 14.4% ii) 87% iii) 95%	i) FINMAP III annual report ii) and iii) Office of the Auditor General's (OAG) Annual Report	-Political will to tackle non-compliance and corruption -Government owned reform plans with strong commitment to their

¹³ Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

		iv) Total value of supplementary appropriations as a % of approved budget* v) % of funds released against approved budget* vi) % of entities audited rated as satisfactory or better in procurement and contract management vii) % of OAG's recommendations for FY N-2 implemented by MDAs viii) % internal audit recommendations implemented by MDAs and Local Governments	iv) 4.5% v) 88% vi) 23% vii) 25% viii) 63%	iv) < 3% v) 98% vi) 50% vii) 39% viii) 85%	iv) FINMAP III annual report v) Budget Outturn Report vi) PPDA annual report vii) OAG reports to Public Expenditure and Management Committee (PEMCOM) viii) FINMAP III annual report	implementation
Outputs	1. Macroeconomic model developed with institutional capacity to improve accuracy of forecasts and revenue monitoring.	1.1 Status of the Integrated Macroeconomic Model (IMEM) 1.2 % variation between budget revenue forecast and outturn 1.3 Number of analytical revenue monitoring reports issued 1.4 No. of Uganda Revenue Authority (URA) staff (disaggregated by sex) trained in taxation audit	2015 1.1 model under development 1.2 – 1.6% 1.3 – 0 1.4 - 0	2018 1.1 Model functioning and used in MTEF to inform budget planning 1.2 – 0.5% 1.3 - > 3 1.4 – 60-90 (to be confirmed)	1.1 FINMAP III annual report 1.2 Budget Outturn Reports 1.3 FINMAP III annual report 1.4 FINMAP III annual report	-PFM Act 2015 and the PFM Strategy will be implemented and adhered; -Government of Uganda commits to improved sustainability of PFM reforms i.e. increased Government funding. -Effective leadership and continued commitment to PFM reforms by Ministry of Finance.
	2. Public Investment Management System (PIMIS) introduced and related capacity for planning and monitoring of investment projects strengthened.	2.1 Status of PIMIS 2.2 Number of stakeholders (disaggregated by sex) trained on PIMIS	2015: 2.1 – PIMIS under design 2.2 – 0	2018: 2.1 PIMIS being used in MoFPED to inform budget planning 2.2 – 80+ (target % by sex to be confirmed)	2.1 and 2.2. – FINMAP III annual report	

	3. Programme Based Budgeting (PBB) system designed and rolled out in 2017/18 and capacity for realistic and timely budget planning improved.	3.1 No. of GoU entities using PBB system to submit their annual budget 3.2 Domestic arrears as % of expenditure outturn 3.3 Status of a Citizen's Budget	2015: 3.1 - 0 3.2 - 4.5% 3.3 - No publication of citizen's budget	2018: 3.1 - >100 3.2 - <3% 3.3 - Government of Uganda publishes citizen's budget	3.1 to 3.2 – FINMAP III annual report 3.3. Open Budget Survey
	4. Computerised financial management system rolled out to central government entities, universities and local governments with related capacity building and implementation of assets module	4.1 Number of universities and local governments using computerised financial management systems 4.2 % Ministries, Departments and Agencies (MDAs) submitting financial reports in accordance with PFM regulations 4.3 % of MDAs submitting end year financial reports on time (within 3 months)	2015: 4.1 LGs- 57 Univ's- 0 4.2 – 70% 4.3 - 23% (to be confirmed)	2018: 4.1 LGs- 93 Univ's- 9 4.2 – 85% 4.3 - 80%	4.1 and 4.2 – FINMAP III annual report
	5. Computerised personnel and payroll management system (IPPS) with biometric verification rolled out to central and local government entities along with decentralisation of responsibility for payroll and pensions.	5.1 Number of GoU entities using IPPS to manage the payroll 5.2 % of GoU personnel with biometric data verified	2015 5.1 - 91 5.2 – 0	2018 5.1 - 130 5.2 – 90%	5.1 and 5.2 – FINMAP III annual report
	6. Capacity building support and systems for tax collection and internal audit provided to local governments (LGs)	6.1 No. of LGs using the taxpayer's database to facilitate collection 6.2 % of LGs submitting quarterly internal audit reports on time	2015 6.1 - 25 6.2 – 67%	2018 6.1 - 75 6.2 – 85%	6.1 and 6.2 – FINMAP III annual report
	7. Payroll, financial management, budget, e-tax, public investment and debt management PFM systems integrated, along with improved security and data management	7.1 Status of the first stage integration of PFM systems 7.2 % of security audit recommendations implemented	2015 7.1 – Integration agreed 7.2 – 77%	2018 7.1 – Source data integrated with IFMS 7.2 – 95%	7.1 and 7.2 –FINMAP III annual report

	8. Internet web portal for public sector tenders introduced, and capacity of officials responsible for procurement strengthened to improve compliance with regulations	8.1 % of contracts audited by value that are rated satisfactory 8.2 % of procurement audit recommendations implemented 8.3 Number of notices placed on the Public Procurement and Disposal of Public Assets Authority (PPDA) procurement portal 8.4 % of PPDA in the Performance Monitoring Department with procurement qualifications 8.5 Number of MDAs implementing the e-procurement system	2015 8.1 - 24% 8.2 – 57% 8.3 – 3,068 8.4 – 24% 8.5 – 10	2018: 8.1 - 60% 8.2 – 80% 8.3 – 8,000 8.4 – 46% 8.5 – 60	8.1 to 8.4 – PPDA annual report 8.5 FINMAP III annual report
	9. PFM Regulations and Treasury Instructions revised in line with the 2015 PFM Act, with improved administrative sanctions to promote compliance.	9.1 Status of New PFM Regulations and Treasury Instructions (TI) 9.2 Status of revised Public Service Standing Orders with clear disciplinary procedures for PFM compliance linked to performance contracts.	2015 9.1 PFM Regulations draft under discussion. 9.2 – No action	2018 9.1 PFM Regulations and TI approved & disseminated 9.2 – Approved & disseminated	9.1 and 9.2 – FINMAP III annual report
	10. Capacity building and risk management systems introduced for internal audit, reporting and follow up of recommendations.	10.1 % of internal audit reports submitted within the stipulated timeframe 10.2 Number of staff (by sex) trained in conducting risk based audits	10.1 – 65% 10.2 – 15	10.1 – 100% 10.2 – 90 (target % of women to be decided)	10.1 and 10.2 – FINMAP III annual report
	11. Regional offices, tools for IT audits and capacity building provided to strengthen the independence and role of the Auditor General's Office (OAG)	11.1 Number of regional OAG offices constructed 11.2 % of auditors with professional certification (including on gender audit) in OAG (disaggregated by sex) 11.3 Number of forensic and special audits completed	2015 11.1 – 1 11.2 – 34% 11.3 - 39	2018 11.2 – 3 11.2 – 42% 11.3 - 70	11.1 and 11.2 – FINMAP III annual report 11.3 – OAG annual report
	12. Parliamentary Information System developed to track and follow up on audits and provision of PFM training materials for Public Accounts Committee (PAC) members and support staff	12.1 Status of the Parliamentary Information system 12.2 Number of MPs trained on PFM issues 12.3 Number of Treasury Memoranda issued by Parliament	2015 12.1 System under design 12.2 – 0 12.3 - 0	2018 12.1 New system in use 12.2 – 10 (to be confirmed) 12.3 - 4	12.1 to 12.3 – FINMAP III annual report