THE REPUBLIC OF UGANDA

OFFICE OF THE AUDITOR GENERAL

ANNUAL REPORT OF THE

AUDITOR GENERAL

FOR THE YEAR ENDED 30TH JUNE 2013

VOLUME 5

VALUE FOR MONEY AUDIT

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LIST OF ABBREVIATIONS

AAMP	Area Based Agricultural Modernization Program
ACF	Agricultural Credit Facility
ADB	African Development Bank
ADF	African Development Fund
AG	Auditor General
AGO	Automotive Gas Oil
BADEA	Arab Bank for Economic Development in Africa
BIK	Bulk Illuminating Kerosene
BOA	Bank of Africa
BOQ	Bills of Quantities
BoU	Bank of Uganda
Bn	Billion
BR	Business Register
BTTB	Background To The Budget
CAIIP	Community Agricultural Infrastructural Improvement Project
CBO	Community Based Organisation
CERUDEB	Centenary Rural Development Bank
COICOP	Classification Of Individual Consumption by Purpose
COREC	Coffee Research Centre
CORI	Coffee Research Institute
CPC	Central Product Classification
CPI	Consumer Price Index
CSI	Construction Sector Indices
CSO	Community Society Organisation
DEA	Directorate of Environmental Affairs
DED/CS	Deputy Executive Director/Corporate Services
DED/SPD	Deputy Executive Director/Statistical Production
DEO	District Environment Officer
DFCU	DFCU Bank
DFR	Department of Fisheries Resources
DOHS	Department of Occupational, Health and Safety
DPC	District Planning Committee
DWD	Directorate of Water Development
DWO	District Water Officer
DWRM	Directorate of Water Resource Management
E&P	Exploration and Production
ED	Executive Director
ETP	Effluent Treatment Plant
FFB	fresh fruit bunches
FMP	Fuel Marking Programme
FY	Financial Year
GDP	Gross Domestic Product
GFI	Global Fluids International
GFPPs	Gender Focal Point Persons
GPS	Global Positioning System
GoU	Government of Uganda
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency
ICD	Internal Customs Depots
IDA	International Development Agency

IFAD	International Fund for Agricultural Development
IFMS	Integrated Financial Management System for GoU
ILO	International Labour Organisation
IMF	International Monetary Fund
KARI	Kawanda Agricultural Research Institute
KDLG	Kalangala District Local Government
KOPGT	Kalangala Oil Palm Growers Trust
LCA	Local Currency Account
LGs	Local Governments
M&E	Monitoring and Evaluation
MAAIF	Ministry of Agriculture Animal Industry and Fisheries
MATIP	Markets and Agricultural Trade Improvement Project
MDAs	Ministries, Departments and Agencies
MDG	Millennium Development Goal
MEMD	Ministry of Energy and Mineral Development
MEPD	Macro-Economic Policy Department
MLHUD	Ministry of Lands Housing and Urban Development
MoFPED	Ministry of Finance, Planning and Economic Development
MoGLSD	Ministry of Gender, Labour and Social Development
MoLG	Ministry of Local Government
MoU	Memorandum of Understanding
MoWE	Ministry of Water & Environment
MTEF	Medium Term Expenditure Framework
MTWA	Ministry of Tourism Wildlife and Antiquities
NARO	National Agricultural Research Institute
NACCRI	Namulonge Agricultural and crop resources Institute
NAADs	National Agricultural Advisory Services
NBFP	National Budget Framework Paper
NDP	National Development Plan
NEF	National Environment Fund
NEMA	National Environment Management Authority
NFA	National Forestry Authority
NGO	Non-Governmental Organisation
NSS	National Statistical System
NTR	Non-Tax Revenue
NWSC	National Water And Sewerage Corporation
OMCs	Oil Marketing Companies.
PCO	Project Coordination Office
PEPD	Petroleum Exploration and Production Department
PFAA	Public Finance & Accountability Act
PFI	Participating Financial Institution
PIM	Project Implementation manual
PPE	Personal Protective Equipment
PPI	Producer Price Indices
PPM& E	Participatory Planning, Monitoring and Evaluation
PPS	Probability Proportional to Size Sampling
PMA	Plan for Modernization of Agriculture
PMC	Project Management Committee
PMS	Petrol Motor Spirit
POM	Project Operation Manuals
PPP	Public Private Partnership

PSD	Petroleum Supply Department
PSI	Policy Support Instrument
PY	Period Year
RWSS	Rural Water Supply and Sanitation
SA	Special Account
SDIP	Social Development Investment Plan
SDS	Social Development Sector
SESTC	Social Economic Statistics Technical Committee
SGS	Societe Generale De Survail-lance (UK)
SPWO	Senior Probation And Welfare Officer
TEP	Total E&P Uganda
ToT	Trainer of Trainers
TPD	Tax Policy Department
TSU	Technical Support Unit
UBoS	Uganda Bureau of Statistics
UBoS SSPS	Uganda Bureau of Statistics Sector Strategic Plan
UBI	Uganda Business Inquiry
UDBL	Uganda Development Bank Ltd
UGP	Uganda Gender Policy
UNBS	Uganda National Bureau of Standards
UNCRS	United Nation Conventions of The Rights of the Child
UNICEF	United Nations Children's Fund
UNHS	Uganda National Household Survey
UOSPA	Uganda Oil Seeds Processors Association
URA	Uganda Revenue Authority
UWA	Uganda Wildlife Authority
UWSS	Urban Water Supply and Sanitation
VODF	Vegetable Oil Development Fund
VODP	Vegetable Oil Development Project
WCA	Waste Consolidation Area
WfP	Water for Production
WSLD	Water Sector Liaison Division
WSSGS II	Water and Sanitation sub- Sector Gender Strategy 2010 - 2015
WUC	Water User Committee

PART I:

1.0 OVERVIEW

This is Volume Five of the Annual Report of the Auditor General to Parliament prepared under the Directorate of Value for Money and Specialized Audits. This Volume contains summary reports of the eleven (11) Value for Money (VFM) audits in the Audit Year ending 31st March 2014. The summary reports contain findings, conclusions and recommendations made for each of the VFM audits undertaken. The detailed reports have been separately issued and copies are available on the OAG website (www.oag.go.ug) and can also be availed upon request from the Office of the Auditor General.

1.1 MANDATE

The mandate of the Auditor General to audit is spelt out under the 1995 Constitution of the Republic of Uganda (as amended) and the National Audit Act, 2008. Article 163 (3) of the 1995 Constitution (as amended) requires the Auditor General to:

(a) Audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of like nature, and any public corporation or other bodies or organizations established by an Act of Parliament; and

(b) Conduct Financial and Value for Money audits in respect of any project involving public funds.

Under Article 163 (4), the Auditor General is required to submit to Parliament annually a report of the accounts audited by him or her or under clause (3) of this article.

The National Audit Act, 2008 (NAA)

The NAA, under section 21 grants powers to the Auditor General to carry out Value for Money audits for purposes of establishing economy, efficiency and effectiveness of the operations of any department or Ministry, Local Government Councils and any Public organization.

Section 22 of the same Act also mandates the Auditor General to carry out special audits, investigations or any other audit considered necessary by him or her.

1.2 VISION, MISSION AND CORE VALUES

1.2.1 VISION

The vision of the office of the Auditor General is **"To be an Effective and Efficient Supreme Audit Institution (SAI) in promoting public Accountability in the use of Resources in the enhancement of good governance".**

1.2.2 MISSION

The mission of the office of the Auditor General is **"To audit and report to the Public and there be make an effective contribution in improving public accountability and value for money spent".**

1.3 SCOPE OF AUDITOR GENERAL'S WORK IN RELATION TO VFM

1.2.3 THE VFM AUDIT

A VFM audit is an independent examination, which provides an objective and constructive assessment of the extent to which the audited body has used its resources in carrying out its responsibilities with due regard to economy, efficiency and effectiveness. VFM audits endeavour to evaluate if activities, programmes or projects involving public funds in Ministries, departments, local government councils and any public organizations have been managed with regard to economy, efficiency and effectiveness. Economy, efficiency and effectiveness can be defined as follows:-

- Economy – Minimizing the cost of resources used for an activity, having regard to appropriate quality.
- Efficiency – The relationship between the outputs, in terms of goods, services and results, and the resources used to produce them.
- Effectiveness – The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Value for Money audits are conducted in accordance with International Organization of Supreme Audit Institutions (INTOSAI) standards. Those standards require that a performance audit should be planned, conducted and reported on in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

In carrying out such an audit, the auditor takes an in-depth look at the way a particular Ministry, Project or Public Institution has planned the task undertaken and whether good management practices and sound judgment were applied.

A VFM audit attempts to determine whether the initial objectives set at the beginning of an undertaking were achieved. As a consequence of that, it is then deduced as to whether due regard for efficiency, effectiveness and economy was considered. Recommendations for improvement are made in those areas where it is felt that deficiencies occurred.

1.4 AUDITS UNDERTAKEN

The Directorate carried out Eleven (11) Value for Money audits in various sectors during the year. In addition Six (6) specialized audits of engineering nature were undertaken and the detailed reports were issued separately and have been summarized under Volume 2 of my Annual Report to Parliament. The audits undertaken include;

Value for Money Audits

1. Revenue Forecasting by Ministry of Finance, Planning and Economic Development.
2. Regulation and Monitoring of drilling waste in the Albertine Graben by NEMA.
3. Gender Mainstreaming in the Water Sub sector.
4. Implementation of the market Infrastructure Component of the Markets and Agricultural Trade Improvement Programme.
5. Management of the Loan Portfolio by Micro Finance Support Centre.
6. Managment of Water for Production facilites by Ministry of Water.
7. Management and Handling of Child Adoption Process in Uganda.
8. Implementation of the Agriculture Credit Facility.
9. Implementation of the Vegetable Oil Development Project.
10. Implementation of the Fuel Marking Programme.
11. Production of price Indices by the Uganda Bureau of Statistics.

Specialized Audits (Engineering)

1. Road and Bridge Contracts implemented by Uganda National Roads Authority (UNRA)
2. Road and Bridge Contracts implemented by Ministry of Works and Transport
3. Road and Bridge Contracts implemented by Kampala Capital City Authority (KCCA)
4. Road Maintenance Contracts under the District Livelihood Support Programme
5. Construction of Chiefs Houses, health Centers and other Facilities under the Office of the Prime Minister.
6. Construction of fish landing centres under the fisheries development project in the Ministry of Agriculture Animal Industries and Fisheries.

1.5 STATUS OF AUDIT REPORTS SUBMITTED TO PARLIAMENT

The Office of the Auditor General has, to date, submitted 60 Value for Money Reports to Parliament. Of the reports so far submitted, Eleven (11) are in respect of the audit year ending 31st March 2014. This volume, therefore, contains summaries of the Eleven (11) Value for Money Audit reports submitted for the audit year ending 31st March 2014.

Discussion of the Value for Money Reports by the Accountability Committees is still a challenge. Of the Forty nine (49) reports earlier submitted, Nine (9) reports have been discussed by the respective Accountability Committees.

The timely consideration by parliament of the VFM reports would enable timely implementation of recommendations, prevention of repetitive irregularities, improved service delivery, guidance on policy formulation and review. This would lead to improvement of government systems and procedures. The Office is engaging Parliament and other stakeholders to address the matter.

1.6 KEY ISSUES AND RECOMMENDATIONS

1.6.1 REVENUE FORECASTING BY THE MINISTRY OF FINANCE, PLANNWING AND ECONOMIC DEVELOPMENT

Revenue forecasts are predictions of future funding availability, given a set of assumptions about future scenarios. They facilitate strong financial management and informed spending decisions; and thus play an important role in a well-designed national budget. The organization responsible for revenue forecasting is the Ministry of Finance, Planning and Economic Development (MoFPED).The overall objective of the Audit was to assess the effectiveness of the tax revenue forecasting process. In doing so, the audit assessed how, Formality and clarity; Comprehensiveness and timeliness; Transparency; Reliability and Learning and review characteristics were implemented during the budget formulation process.

There has been tremendous improvement towards financing of the country's national budget using domestic revenue which currently stands at approximately 80% of the National budget. The overall revenue forecasting errors were quite low averaging at about 0.3% over the period under review. MoFPED has published macroeconomic assumptions in the budget documents and has endeavoured to provide analysis and reports on revenue performance in the Revenue Performance Reports and in the Annual Economic Performance Reports. A degree of coordination between some of the key entities in the forecasting process was noted and it was evidenced by the weekly and monthly meetings held between Bank of Uganda (BoU) and Uganda Bureau of Statistics (UBoS). However, the following key areas were identified for further improvement:

Formality and Clarity

There is lack of formal rules and hence a well-structured process to guide the revenue forecasting process. There was no documentation to explain how the revenue forecasting process was done and how tasks and timelines were set. In addition, despite the fact that the forecasts were regularly reviewed internally, there was no formal process for the reviews or the discussions that take place, especially after the modeling exercise, before a final tax revenue target to Uganda Revenue Authority (URA) is reached which may render the whole process subjective. The lack of a formal process of revisions casts doubts on the validity of the forecasts and may expose them to discretionary adjustments. This affects the accuracy of the forecasts and poses difficulty in the assessment of the performance and viability of the forecasts.

Comprehensiveness and Timeliness

The revenue forecasts were limited in scope to only the Central Government operations which only include tax revenue forecasts. The Local Government operations and some Non-Tax Revenue were not included in the revenue forecasts because of mandates given to the Local Government through various legislations. Although MoFPED forecast revenue for individual tax heads, it lacked disaggregated models to look more closely at individual tax heads. Gaps of coverage in revenue forecasts mean that the Government and public lack a clear picture of the overall resources available to the country.

Transparency

Overall, the level of transparency in the revenue forecasting process was limited. Although the macroeconomic assumptions were published in the Budget documents, the Annual Economic Performance Reports and the International Monetary Fund (IMF) website, they were of limited circulation. There is no documentation of the models used to forecast both GDP growth and revenues. Limited transparency in the revenue forecasting process reduces the opportunity for verifying the authenticity and validity of the forecasts and underlying assumptions and provides a risk of discretionary adjustments on the forecasts. Besides, in the absence of clear documentation and publication of processes and data/models used, the forecasts fall short of assuring the public of the credibility of the revenue forecasts due to limitations for independent evaluation.

Reliability and Credibility

The models used by MoFPED to forecast revenues and GDP were relatively basic, based on Excel worksheets that incorporate factors including inflation, GDP, import volumes, exchange rate, policy measures and URA efficiency among others. This produces benefits in terms of simplicity and clarity, but makes it difficult to assess changes in approach in detail. The model includes a term for 'elasticity' (for instance, the responsiveness of revenues to GDP changes) which is estimated separately depending on the various bases for individual tax heads but also based on the modeller's judgment of the reasonable effect on the overall forecast. Some discretionary adjustment was made to the forecasts derived from the forecasting model to fit within past trends and current economic environment and ensure that the targets are met by URA. This undermines the credibility of the forecasting process and hence the authenticity of MoFPED forecasts.

Learning and Review

There was little or no systematic process for reviewing and learning from past revenue forecasts or assumptions. Although MoFPED annual Revenue Performance Reports describe the gaps between targets and actual outturns in the last year, and provide some discussion of why these gaps occurred, they do not assess whether the targets and forecasts were themselves reasonable, and provide varying data in different years.

KEY RECOMMENDATIONS

- MoFPED should draw up formal rules that clearly spell out and guide the revenue forecasting process and also initiate formal documentation of the entire forecasting process.
- MoFPED should provide forecasts of Local Government and all non-tax revenue alongside its forecasts of central government revenues. In addition, MoFPED should in partnership with the URA, develop its capacity to forecast revenues for individual tax heads using information on the macroeconomic and administrative factors affecting collection.
- MoFPED should publish macroeconomic assumptions in other documents outside the budget documentation for public consumption in order to encourage performance monitoring and accountability and should encourage participation of non-government agencies in the process of forecasting macroeconomic indicators and revenues forecasting, in order to promote inclusiveness and credibility.
- MoFPED should review its current forecasting models and supplement them with econometric methods to make the forecasting more robust.
- MoFPED should institute a process of systematic annual review of revenue forecasts, alongside Bank of Uganda and the URA. This should include: published assessments of the reasons for errors; analysis of whether URA achieved its effort and efficiency targets; and identification of any longer-term trends in forecasting errors

1.6.2 REGULATION AND MONITORING OF DRILLING WASTE MANAGEMENT IN THE ALBERTINE GRABEN

The Albertine Graben is where all Uganda's recently discovered petroleum falls and is the most important eco region in Africa as it hosts the continent's most endemic vertebrate species. With the discovery of viable Oil and Gas reserves in the Albertine Graben, drilling waste is currently generated by the exploration activities, wherefore the proper management of waste from the petroleum activities is of vital importance. The purpose of the audit was to assess the efforts of NEMA in securing effective and environmentally sound mechanisms geared towards handling drilling waste in the Albertine Region.

KEY FINDINGS

Adequacy of Waste Management Regulations and Guidelines

NEMA has delayed by three (3) years in coming up with revised legislation that would encompass the oil and gas issues considering that a review that had started in 2008/09 and was supposed to end by 2010/11 had not delivered any tangible outputs by the time of audit (March 2014) regulations issued incorporating aspects of drilling waste management had not been by issued by NEMA.

The current operational waste management guidelines for oil and gas operations issued by NEMA do not spell out how drilling waste currently generated in the Albertine Graben should be transported, stored, treated and disposed.

Besides; the relevant stakeholders were not consulted while formulating the Operational Guidelines on Waste Management for oil and gas in the Albertine Graben issued in 2012, and as a result, the guidelines had several gaps that hampered their adoption and/implementation.

Monitoring and Compliance Enforcement of waste management in the Albertine Graben

- Oil exploration and production companies did not prepare and submit self-monitoring reports against set parameters as per requirement. A review of their self-monitoring reports for the FYs 2010/11, 2011/12, 2012/13 revealed that out of the expected twelve (12) self-monitoring reports, Tullow (TUOP) had submitted Seven (7) reports (58%) while Total (TEP) and CNOOC were each expected to have submitted Six (6) self-monitoring reports but Total (TEP) submitted three (3) (50%) and CNOOC none (0%) respectively.
- Licensed waste transportation firms did not regularly submit bi-annual reports on the quality and quantity of waste to NEMA as required. Despite the repeated non-compliance of the companies, NEMA did not impose any sanctions or penalties on them.

- District Environment Officers (DEOs) are not conducting inspections in the Graben despite the fact that they have been trained to do so by NEMA especially on aspects of monitoring and inspection of oil and gas activities. This has been attributed to the inadequate funding from their respective Local Governments. Inspections were only carried out when NEMA or the oil companies were involved and/or facilitated them.

- Multi-sectoral inspections required in the Albertine Graben were not conducted as regularly as required. On average, the multi-stakeholder inspections conducted constituted 18.75% of the expected inspections.

- NEMA had done well to conduct inspections over and above (133%) the required frequency in the Albertine Graben in the financial year 2012/13. However, it had not reported and shared the results of these inspections with the concerned companies.

Compliance and Independent verification/ Methodology for inspections

NEMA was not carrying out independent verification of tests of solid and liquid waste samples generated from the drilling activities to corroborate the results they received from the self-monitoring tests carried out by the oil companies.

Environmental and Economic effects of Waste Management practices in the Albertine Graben

- **Treatment and Disposal of waste**

  Drilling waste stockpiles in the Albertine Graben for the period kept by TUOP (Tullow) and TEP (Total) for solid and liquid waste stood at 39,625 tons and 8227 cubic meters respectively exclusive of CNOOC which did not provide information on the quantity of drilling waste it generated.

  Companies currently licensed by NEMA to treat the waste generated in the Graben cannot treat this waste as required because there are no adequate and relevant waste management regulations specific to Oil and Gas.

- **Environmental effects**

  The current practices are likely to expose the Albertine Graben to more potential environmental risks since a larger area of land in this sensitive eco-system is cleared, dug up and compressed as a methodology to handling the waste in the short run, than if waste was treated and disposed of at once; this was evidenced at Bugungu Waste Consolidation Site where waste had been piled above ground level but had not been properly tucked away.

  The current waste management practices create a double cost in terms of time, labor and money since the waste has to be re-transported to a final waste treatment and disposal site. This has already cost government significant sums of money, since waste management is part of the recoverable expenditures/ costs as per Uganda's Production Sharing Agreements (PSAs).

  From 2010 to 2013 alone, the total expenditure on drilling waste management activities by Oil and production companies amounted to UGX 26.263 billion.

KEY RECOMMENDATIONS

Waste management regulations and guidelines

- NEMA should prioritize and expedite completion of the review of Uganda's legislation to incorporate oil and gas issues to promote better management of drilling waste.

- NEMA should consider adding review of the Operational Waste Management Guidelines on Oil and Gas Operations to the on-going legislative review.

- In future, NEMA should involve stakeholders in formulation of any policies, legislation or guidelines, and seek their input.

Monitoring and compliance enforcement

- NEMA should ensure that the Oil and Exploration companies carry out Self-Monitoring and report the findings to it as required and where necessary, use available sanctions in the Law to compel their compliance.
- NEMA should step up its coordination efforts of the multi-sectoral inspections in order to ensure that the knowledge from the various experts in specialised fields of ecosystem management is harnessed.
- NEMA should expedite its proposal of permanently having its Environment Monitoring staff stationed in the Albertine Graben in order to keep pace with activities of Oil and Gas.
- NEMA should consider ensuring timely communication of inspection findings to inspected entities as per the strategy requirement.
- Government should consider introducing conditional grants for the District Environment Offices to facilitate environmental monitoring. In addition, MoFPED should consider approving/ financing the recommendation by NEMA's Institutional Review Report to employ more environmental monitoring officers (Oil and Gas) and establish regional offices for better environmental monitoring, especially in the oil and gas sector.

Environmental and Economic Effects of waste management practices

- NEMA should routinely carry out laboratory tests to ensure that it keeps track of the effect oil exploration activities (if any) have on the environment.
- NEMA should consider prioritizing acquisition for standard equipment for its existing laboratory so as to enable the regular conducting of verification tests of waste samples obtained from the Albertine Graben.
- NEMA should expedite review of environmental legislation to incorporate management of waste from drilling activities.
- NEMA should as far as possible engage the Oil companies to address their concerns and enable treatment and disposal of waste by the licensed companies.
- NEMA should liaise with MEMD and PEPD to ensure that it is involved in assessing waste management expenditure proposals/scenarios submitted by the oil E&P companies.

1.6.3 GENDER MAINSTREAMING IN THE WATER SUB SECTOR

Gender Mainstreaming is a strategy for making women's as well as men's concerns and experiences an integral part of the design, implementation, monitoring and evaluation of government policies and programmes so that both benefit equally.

The overall objective of the audit was to assess the efforts of MWE, through the Water and Sanitation Liaison Division (WSLD), in ensuring the implementation of gender mainstreaming in the rural water sub-sector

KEY FINDINGS

The MWE was the first ministry to develop a sector specific gender strategy and recruited a gender specialist team (Sociologists) dedicated to coordinate and implement gender mainstreaming and developing gender monitoring indicators which were incorporated into the Ministry's sector reporting formats. The audit identified some areas for further improvement.

Planning, Budgeting and Funding of Gender-related activities

For the three financial years under review, only two (2) of the 5 activities to be undertaken annually were included in the Ministry's annual operational plans (Ministerial Policy Statements- MPSs) while the others three (3) were omitted. The three (3) activities to be undertaken in FY 2010/11, 2011/12 and 2012/13 were also not included in the respective MPSs.

Capacity Building for Gender mainstreaming

- **Training for district staff by Water Sector Liaison Department (WSLD)**

The WSSGS II and the MPSs did not indicate how many staff should have been trained per year. In the period under review, the Ministry carried out training for staff in three (3) out of the eight (8) regions/ Technical support units (TSUs). The total number of District Water Officers (DWOs) and Community Development Officers (CDOs) trained in these three (3) TSUs was 30 and 21, respectively out of 111 countrywide which represents 27% and 19% of expected trainings, respectively. No training was undertaken in FY 2010/11.

- **Support and mentoring of districts by TSUs**

It was noted that TSUs only provided support during the initial training given to water user committees at the water sites, at the annual district advocacy meeting and as and when called upon for a meeting in all the 17 districts visited. 10 out of 17 DWOs and 12 out of 17 CDOs further revealed that they had not received any specific training on gender issues in the water sub sector but gender implications had only been mentioned during the above meetings and monitoring visits with TSUs.

- **Training of MWE staff by WSLD**

Whereas the Ministry had not trained any of its permanent staff in gender mainstreaming during the three years under review, it had, trained 20 contract staff (TSUs) in gender mainstreaming, and seconded 20 MWE Department Budget Focal Point officers and Gender Focal Point Officers to attend training in developing gender sensitive plans, budgets and policies organized by the Ministry of Finance, Planning and Economic Development.

Access to water facilities and participation in their management

- **Percentage of the rural population with access to safe water facilities**

In the financial years 2004/05 and 2012/13, the percentage of the rural population with access to safe water facilities fluctuated between 61-65%. In the period under review, the water access stood at 65%, 64% and 64% for FYs 2010/11, 2011/12 and 2012/13 respectively. Based on the above trends, it is highly unlikely that the Ministry will achieve its target of 77% access by the end of 2014/15.

- **Participation of women in management of water facilities**

Participation of women in the management of water facilities is still inadequate, despite the fact that their participation has been shown to contribute positively to better functionality of water sources. The number of women in management positions on Water User Committees (WUCs) had not changed much during the three years under review; in 67.5% of WUCs, women constituted less than 50%. In addition, 50% of DWOs and CDOs interviewed were unaware of the requirement that WUCs should comprise at least 50% women. The MWE also did not report on this output in the districts' performance.

- **Community Capital Contribution towards cost of construction**

In two (2) out of the 17 districts visited (Mayuge and Namayingo), individuals paid the capital contribution on behalf of the communities and as a result, the beneficiary communities perceived the new water points to be owned by the individuals who had paid the capital contribution. This resulted in the beneficiaries' reluctance to pay for the repairs, perceiving that this too was the responsibility of the benefactor.

- **Operation and Maintenance fees (O&M)**

Although guidelines require communities to make monetary contributions for the operation and maintenance of water points, the amount was not specified and thus WUCs were setting fees (arbitrarily) depending on the needs of the water point. Furthermore, audit noted that most water users did not pay these fees as required. In addition, even where communities willingly paid the O&M fees, constant breakdown of the boreholes, creates fatigue among members who contribute.

Monitoring and Evaluation (M&E)

- **Annual Monitoring**

It was noted that MWE's WSLD only monitored 23% of the 111 districts in Uganda during the period under review. Even where the monitoring was undertaken, some objectives of monitoring were not achieved. In addition, verbal rather than written feedback was given to the districts that were monitored. Without written feedback it was not possible to measure the effectiveness of the monitoring carried out.

- **Gender impact studies**

Whereas the Ministry planned to carry out a gender impact study in FY 2012/13, it had not been undertaken by the time of audit in December 2013.

KEY RECOMMENDATIONS

Planning, Budgeting and Funding of Gender-related activities

- MWE should prioritize gender interventions and ensure that all strategy activities outlined in the WSSGS II are clearly planned and budgeted for implementation in the annual Ministerial Policy Statements.
- The WSLD should always prepare written and distinct work plans and budgets for gender-related activities on annual and quarterly basis before they are entered into the Output Based Budgeting Tool (OBT).

Capacity Building for Gender mainstreaming

WSLD should develop a capacity building programme for all TSUs, district officials and other MWE staff to train, sensitize and provide printed materials on gender issues in the water sub sector to ensure proper gender mainstreaming across all levels.

Access to water facilities and participation in their management

- MWE should prioritize mechanisms aimed at improving the number of functional water sources.
- MWE should engage with MoFPED to ensure that submitted proposals/ requests aimed at increasing functionality and access are funded.
- MWE should disaggregate data on WUC composition by gender, and ensure that all districts do the same.
- MWE should liaise with Ministry of Gender, Labour and Social Development (MoGLSD), District Local Governments (DLGs) and other relevant stakeholders to empower women and intensify sensitization of communities to break gender stereotypes.
- WSLD management should prioritize budget allocations to activities aimed at ensuring raising of awareness of grass root communities and community leaders on the objectives of the capital contribution and the importance of contributing towards maintenance of water sources.
- Continuous monitoring and mentoring of WUCs should be done by MWE, TSUs and DLGs to ensure proper assessment, collection, management and accountability of O&M fees.

Monitoring and Evaluation

MWE should prioritize the monitoring of the gender interventions and ensure that they are planned and budgeted for.

The Ministry should prioritize carrying out the gender impact study.

1.6.4 IMPLEMENTATION OF THE MARKET INFRASTRUCTURE COMPONENT OF THE MARKETS AND AGRICULTURAL TRADE IMPROVEMENT PROGRAMME (MATIP)

The Market and Agricultural Trade Improvement Programme (MATIP) is a project implemented by the Ministry of Local Government (MoLG) whose objectives is to provide additional working space; improve working conditions; provide adequate infrastructure services and social amenities; create better trading opportunities for vendors; increase revenue collections for local governments (LGs) and reduce the volume of waste and occurrence of market fires. The overall audit objective was to evaluate the implementation of the infrastructure development component of the Project.

KEY FINDINGS

MoLG has achieved significant progress in the implementation of the MATIP 1 project. Two (2) out of the seven (7) markets under redevelopment have been completed and handed over to the urban authorities. It was also observed that there was a needs assessment and proper planning undertaken for the infrastructure development and the expected targets and timelines were clearly spelt out prior to implementation of the component. However, this audit has identified some areas that require improvement in order to steer the project towards the achievement of its objectives and also to inform better planning for future projects of this nature:

- **Delays in Commencement of Project**

Generally, there was delay in commencement of the project caused by delays in loan approval and delays in the procurement of contractors. This has led to low funds absorption ranging from 11.83% to 59.21%.

- **Contract Amounts**

The contract amounts for Hoima and Lira markets were understated by UGX.901,526,519 due to uncorrected errors at evaluation of bids. These markets will require additional funds for completion.

- **Ambiguities in Cost elements of Contracts**

As a result of inadequacies in the bid documents, some costs assumed to be covered within the charged out rates were again charged under Preliminaries and General (P&G) sections of various BoQs resulting into unrealistically high amounts for P&G a problem attributed to the manner the BoQs were structured in the bid document. A total of shs1.7 billion was paid in this respect., This practice exposes the project to the risk of loss of funds in the event of the contractors abandoning the works .The designs of some sections of the redeveloped markets do not address the purpose for which the sections were constructed. For some markets, a number of facilities were left out; including lock ups, stalls, cold rooms, restaurants, pharmacies, clinics and banking halls.

- **Contract Supervision**

  Critical contract supervision staff were absent from some sites whilst critical civil works were going on.

- **Delayed Government Contribution**

  GoU counterpart contribution amounting to UGX.8,130,726,581 was not availed to the project. This mainly relates to accumulated VAT on various certificates for completed works which has contributed to delayed completion of works.

- **Quantity Verification**

  There were overpayments for works on various markets amounting to UGX.756,177,398 made to various contractors.

- **Uncharged Liquidated Damages**

  Redevelopment of Hoima market had exceeded its intended completion date. However there is no proof that liquidated damages amounting to UGX.58,126,196 were charged as required by law.

- **Utilization of the markets**

  The two markets, Wandegeya and Mpanga, which have been completed and handed over, have remained partially occupied and un-occupied respectively due to various reasons.

KEY RECOMMENDATIONS

- MoLG should ensure that loan funds are accessed on time for timely implementation of projects. In addition, the Government should avail its counterpart contribution on time in accordance with the loan agreement.
- The project implementation team should ensure that design gaps are addressed for sites where work is still on-going and in future perform a design review taking into account all lessons learnt during the initial implementation.
- MoLG should invoke the penalty clauses in the consultancy contracts to ensure that the consultants deliver to expectations.
- The overpaid amounts should be recovered from the contractors in subsequent payment certificates and the Ministry should enhance contract supervision to avoid a recurrence of the overpayment.

- MoLG should ensure that liquidated damages are charged from contractors who have delayed to complete and extension of time has not been granted.
- MoLG should standardize the preliminaries and general items in the bid document.

1.6.5 MANAGEMENT OF THE LOAN PORTFOLIO BY THE MICROFINANCE SUPPORT CENTRE

Microfinance Support Centre Ltd (MSC), a government owned company, was incorporated in 2001 to offer affordable, sustainable and convenient financial and business development services to active and productive Ugandans by extending credit and business development services to registered institutions engaged in agricultural value chain production, processing and marketing.

From FY 2009/10 to F/Y 2012/13, GoU & Development partners invested UGX 63.08 bn into MSC for wholesale lending and operations.

This audit was undertaken to assess whether management and delivery of credit and Business Development Services (BDS) by MSC is done in an economic, efficient and effective manner.

KEY FINDINGS

Audit has noted major achievements by MSC including; outreach to all sub counties in the country as envisaged in the design of the scheme, development of a number of loan products to cater for the various client segments and, to some extent, MSC has strengthened its staff capacity through specialized training programmes.

However the following areas, requiring improvement, were identified during the audit:

Special loan programmes

It was observed that loans under special programmes totalling to UGX 7.6 bn were paid out to clients without signing Memoranda of Understanding (MoUs), contrary to the MSC operational manual. It was therefore difficult to ascertain the terms and conditions under which these loans were disbursed. Moreover the majority of the beneficiaries have defaulted.

Monitoring and tracking of loans

There is inadequate monitoring and follow-up of clients and limited technical assistance by MSC credit staff. It was further observed that poor record keeping by SACCOs made loan tracking and follow-ups difficult. This was observed in 80% of the SACCOs visited. Where monitoring visits were done, no formal feedback and guidance in form of reports or action points for improvement were given to the clients. This has partially led to a drastic rise of the portfolio in default.

Loan Defaults

It was established that the loan default rate stood at 38% compared to the target of 5%. This was attributed to the practice of lending to SACCOs which are considered to be the most risky given that they do not provide security and yet constitute the majority of MSC clients.

Recovery of loans

- **Recovery of secured loans**

Although the total outstanding balance of secured loans forwarded for legal action at the time of audit (January 2014) amounted to UGX 7.04bn, the securities attached to these loans could only cover UGX4.16bn leaving loans worth UGX2.8bn without security.

Moreover of the UGX4.16bn due for legal action, only UGX2.1bn had been recovered at the time of audit, leaving a balance of UGX2.0 bn. unrecovered and likely to be written off.

- **Recovery of unsecured loans**

There were instances of delays or failure by MSC to recover unsecured loans in arrears past 90 days which led to high write offs and eventually loss of the outstanding loan amounts. The write offs were made without exercising the option to auction guarantors' personal assets which should have been used as a fallback position in case of default.

For the period under review, loans amounting to UGX1.34 billion disbursed to 68 clients had been written off by the board as at 30th June 2010. The write-offs had increased to UGX6.1 billion (disbursed to 276 clients) as at 30th June 2013.

Portfolio Growth

It was observed that there has not been significant growth in the portfolio per annum when compared with the planned target. For the period under review the average annual growth was found to range between 18% and 38% compared to a target of 75%.

Cost- benefit analysis of operating zones

A cost benefit analysis of the performance of zones revealed that the operational costs of the zones of Soroti, Mbale, Moroto, Iganga and Gulu were far above the interest revenue generated from the portfolio profiles being delivered in these zones. For the FY 2012/2013, expenses of rent, allowances, utilities and salaries to these zonal staff far outweighed the total interest income from loans disbursed.

Capacity building for MSC clients

Although the Centre had spent UGX 1.069 bn, for the period under review on off-site client training, visits carried out in 32 SACCOs and MFIs revealed that client trainings had not been effective and this is evidenced by SACCOs which have continued to experience poor governance, weak internal controls, liquidity problems, poor record keeping and financial mismanagement problems among others.

Follow-on loans

Cases were observed where the requirement for 30% repayment of the initial loan was not met before advancement of the follow-on loans.

KEY RECOMMENDATIONS

- MOUs under special programmes should be emphasized as per laid down procedures.
- MSC should have a clear portfolio monitoring and tracking system in place to reduce on the rising rate of default and the high level of loans at risk.

There is also need to address the staff structure of the credit department to enhance the oversight of the portfolio.

- In addition to engagement of professionally competent and credible valuers to undertake property valuations of attached properties, annual impairment reviews should be undertaken to ensure property values are commensurate with their carrying amounts.
- There is need to review the eligibility criteria for its clients to ensure that loans are fully secured by real or personal property rather than personal guarantees to avert loss of funds through the high rate of loan write-offs.
- The management of MSC should undertake a review of performance of loans, especially those disbursed to SACCOs, so that the risk associated with such lending is clearly identified and appropriate mitigation measures undertaken to support the company in achieving its objectives.
- MSC management should take the necessary measures to ensure that the performance of these zones is improved to avoid incurring high costs with no equivalent services rendered to the public. The possibility of amalgamating some of these zones could be explored.
- In future, the zonal offices should be able to be self-reliant whereby their interest revenues cover the operational costs.
- There is need to review the BDS (Capacity building) strategy with a view of delivering client trainings that yield impact while at the same time being able to measure the impact of such trainings.
- MSC management should streamline and strengthen the procedures for follow- on loans.

1.6.6 MANAGEMENT OF WATER FOR PRODUCTION FACILITIES

Water for Production (WfP) refers to development and utilization of water resources for productive use in crop irrigation, livestock, aquaculture, rural industries and other commercial uses. The Government of Uganda (GoU) through the Ministry of Water and Environment initiated the Water for Production programme whose objective is to develop and promote the effective use of facilities for water for production for socio-economic development, modernise agriculture and mitigate effects of climate change. The main objective of the audit was to establish whether the Ministry was taking appropriate measures in ensuring adequate supply of water for production.

KEY FINDINGS

The Ministry has over the past three years achieved its set water volume targets by over 95%. Relatedly the available cumulative storage capacity for water for production facilities had increased from 26.5 million cubic meters in the Financial Year 2010/2011, to 27.3 million cubic meters by the end of June 2013.

Despite these achievements, the study identified areas which require improvement to ensure better service delivery.

Needs Assessment of Water for Production requirements in Uganda

There has not been a national needs assessment undertaken to establish the exact needs of the country's water for production requirements in specific regions or areas which could be used for planning and resource allocation. This was partly attributed to lack of a clear policy that explicitly required the country's water for production needs to be periodically assessed.

Projected demand for Water for Production

The annual target water volumes set were far below the projected demand and the desired volume set in the National Development Plan (NDP), which is 45 million cubic meters by 2014/2015. In addition, the water available (cumulative water supply) was still too low to meet the current water demand. This was attributed to the low level of investments being undertaken in the sector.

Cost of Water for Production

The cost per cubic meter of the water for production increased from UGX 15,916 in 2010/11 to UGX 29,391 in 2012/13. This was attributed to the technology option used in the construction of these facilities.

Functionality of Water for Production Facilities

Although the functionality rate had improved from 24% in 2010/11 to 71% in 2012/2013, a number of facilities remained either partially functional or non-functional.

Coordination between Ministry of Agriculture, Animal Industry & Fisheries and the Ministry of Water and Environment

A review of reports and various correspondences showed that there were still gaps in coordination between the key players in the Subsector of Water for production, especially between those in the Ministry of Agriculture, Animal Industry and Fisheries and Ministry of Water and Environment. Such gaps in coordination impact on service delivery.

Quantity verification

Overpayments for works executed amounting to UGX.74,597,200 were made to contractors during construction.

Completed works were still holding well however quality deficiencies in four (4) of the seven (7) water for production facilities were observed.

Utilization of Water for Production Facilities

Some of the facilities were under-utilized compared to their design capacity. Three (3) of the seven (7) facilities assessed during the study were under-utilized.

Functionality and Maintenance of Water for Production facilities

Out of the 711 facilities constructed between 2000 and 2013, 278 facilities were under community management with established water user committees. Out of the 278 facilities, 216 (78%) were functional and 62 (22%) were non-functional. In addition it was noted that there was still a big challenge in collecting the user fees to be used in maintenance and for minor repairs of the facility.

Facilities constructed for the respective Local Governments (LGs) are still a major problem. This was attributed to lack of capacity by the LGs to undertake the maintenance.

KEY RECOMMENDATIONS

Needs assessment of water for production requirements in Uganda

The Ministry should liaise with the other key stakeholders in the water for production sub sector mainly those in the Ministry of Agriculture, Animal Industry and Fisheries to ensure that there is a national needs assessment in order to systematically address the water for production needs of the country.

Functionality of Water for Production Facilities

The Ministry of Water and Environment should ensure that the causes of the non-functionality of the facilities are addressed so as to achieve value for money for the investments made in constructing these facilities.

Coordination between Ministry of Agriculture, Animal Industry & Fisheries and the Ministry of Water and Environment

The inter-ministerial committee set up by the government needs to be more assertive and ensure that coordination challenges between the two implementing ministries are addressed for effective delivery of services.

Quantity Verification

The Ministry should charge the contractors liquidated damages in accordance with the contract provisions and recover the amounts paid in excess of works executed from outstanding certificates for ongoing contracts and also come up with measures to enhance contract supervision.

For facilities still under defects liability, the contractor should correct the defects to avoid further deterioration of finished works. For completed works, the Ministry should encourage maintenance by the users and enhance the supervision of ongoing works to ensure that works conform to the quality specifications.

Utilization of Water for Production Facilities

The Ministry of Water and Environment should engage the Ministry of Agriculture through the inter-ministerial committee to ensure that the facilities are utilized to their full design capacity.

Functionality and Maintenance of Water for Production facilities

MOWE should support the various local governments in ensuring that the facilities have functional water user committees and put in place a maintenance framework for the facilities, including maintenance and operation manual as well as guidelines; build capacity of the local governments to undertake maintenance of the facilities through sensitization and training; and prioritize the activity and provide adequate supervision.

1.6.7 MANAGEMENT AND HANDLING OF CHILD ADOPTION PROCESS IN UGANDA

According to a documented base line survey report , the recent trend to adopt children from Uganda is increasing at an alarming rate. The objective of the audit was to evaluate the oversight function of the Adoption process and assess the extent to which the child adoptions were undertaken in accordance with the existing legal framework.

KEY FINDINGS

Legal Framework for adoption process in Uganda

It was noted that the Ministry responsible for youth and children (MoGLSD) had not developed guidelines for the procedure and practice of courts in awarding Legal Guardianship Orders. The Uganda Children's Act provides safeguards for children's welfare, but omits legal guardianship. As a result, the courts continued to rely on their discretionary powers to exercise judicious decisions on matters relating to child adoption.

Eligibility requirements and legal custody process for child adoption Uganda

It was noted that prospective adoptive parents that do not meet the eligibility requirements for gaining legal custody of children are being granted adoption orders; this casts doubts on the manner in which applications of provisions relating to adoption are being effected by the relevant government agencies and affects the stability of relationships between the adopted children and the adoptive parents.

Performance of Probation and welfare officers in the adoption process

It was noted that districts did not prioritize activities on social welfare and children matters. On average, less than 0.02% of the total budget was allocated to District Probation and Social Welfare officers.

As a result, the government's alternative care framework has remained an idea on paper and not been implemented since the persons entrusted with the implementation have grossly neglected their roles.

Registration of adopted children

Adoptions granted every year by the Courts of Uganda are not recorded by the state. This is because government has failed to enforce this provision of the law. Consequently, an accurate and reliable record of the numbers of adopted children in Uganda could not be established. This makes it difficult for government to ascertain whether the best interests of the adopted children are provided for since in the absence of reliable records, planned follow-ups on the adoptions granted can not be done. The follow ups would ascertain whether the conditions under which the orders granted are being met by the adoptive parents.

Post adoption reporting

There are weaknesses in the post adoption reporting requirements from both the adoptive parent and government. It is not clear in the adoption process as to who is supposed to monitor the progress of adopted children while in the company of their new adoptive families. This is because the Ministry of Gender, Labour and Social Development (MoGLSD) has not established a tracking mechanism to monitor the welfare of these children considering that only 0.28% of its total funding was allocated to its relevant department responsible for children matters to use for this and all its other activities.

Consequently, it is difficult to have an assurance that the children's fundamental rights have been respected and thus abduction, sale or trafficking of children cannot be ruled out.

KEY RECOMMENDATIONS

- The Ministry should ensure that the relevant and appropriate rules and regulations regarding the adoption process are formulated.
- The Ministry should expedite its proposals with the National Framework for Alternative Care and ensure that all the necessary legal requirements for child adoption are complied with and establish a central coordination agency with clear roles and responsibilities for coordinating, monitoring and evaluating the performance of district probation and social welfare officers.
- The Ministry should sensitize all stakeholders especially the Local Governments about the importance of allocating adequate budgetary provisions for social welfare and probation activities in the districts.
- Uganda Registration Service Bureau should maintain an up to date register of all adopted children, including all particulars pertaining to the respective adoptive parents.
- The Ministry should ensure that registration certificates for adoption are the last requirement for a legally recognized adoption of a child in Uganda and that this should form part of the immigration clearance for international adoptions before such a child is allowed to leave the country.

1.6.8 IMPLEMENTATION OF THE AGRICULTURAL CREDIT FACILITY (ACF)

The Agricultural Credit Facility (ACF) is a refinance scheme administered under the Memorandum of Understanding (MoU) signed in 2009 between the Government of Uganda (GoU) and Participating Financial Institutions (PFIs) intended to facilitate the provision of medium and long term loans to projects engaged in agriculture and agro-processing on more favourable terms than are usually available from the financial institutions. The overall audit objective was to assess whether the ACF scheme was properly planned and implemented in accordance with the Memorandum of Understanding and recommended project management practices.

KEY FINDINGS

At the time of audit a total of 213 beneficiaries had accessed the scheme with key investment areas being: Agro-processing machinery, Tractors, farm equipment, Irrigation equipment, green house facilities, farm expansion and storage facilities.

In spite of these achievements, the review identified some areas that required improvement.

Project Planning and Design

It was noted that no feasibility study and baseline surveys were undertaken during the design of the scheme in order to ascertain the viability of the scheme. There was no evidence of consultations with relevant stake holders such as Ministry of Agriculture, Animal Industries and fisheries (MAAIF), the Ministry responsible for the development of the agricultural sector in the country.

Relatedly, the concept paper from which the scheme was formulated was not approved by Ministry of Finance, Planning and Economic development (MoFPED) while the outputs of the scheme reflected in the concept paper also lacked clearly defined targets, performance indicators and timelines thereby creating difficulties in proper evaluation of the scheme.

GoU and PFIs Contribution to scheme

From analysis, the total disbursement by GoU and PFIs amounted to UGX 118.5 bn representing 44% of the expected total disbursement of UGX 270 bn for the period under review.

Variances in Total Loan Amounts reported in the Records of BoU and PFIs

There were variances totalling to UGX 10.288 billion between the disbursed loan amounts recorded by PFIs and BoU. In some instances, the amounts reported by BoU were more than those reported by the PFIs while in other instances the amounts were less.

Monitoring the Scheme

Bank of Uganda (BoU) did not undertake physical monitoring of beneficiary projects as this, in BoU's view, was not consistent with their mandate of regulating the financial institutions.

Inadequate monitoring and supervision increased the risk of loss of scheme funds arising from delinquent accounts which stood at UGX 7.78 bn at the time of audit.

Marketing of the scheme

No agreement had been reached between BoU and PFIs on how the scheme would be marketed. By the time of audit (February 2014), there was no proper arrangements/strategy to market the scheme.

KEY RECOMMENDATIONS

- MoFPED should undertake a comprehensive review of the MoU and ACF scheme so that challenges affecting the implementation of the scheme are identified and appropriate measures put in place.
- BoU should ensure that all disbursements to PFIs and repayments by PFIs are reflected on the capital account as stipulated in the MoU. This makes it easy to trace the flow of funds.
- BoU should put in place a robust loan management system to enable proper monitoring and tracking of loans disbursed to beneficiaries.
- Management of BoU and MoFPED should investigate the variances identified with the loan amounts and appropriate action taken to improve performance.
- MoFPED should enhance the monitoring and marketing function of the scheme so that feedback on the performance and problems faced by the scheme are received in time and all eligible beneficiaries get to know the existence of this facility.

1.6.9 IMPLEMENTATION OF VEGETABLE OIL DEVELOPMENT PROJECT (VODP)

The Vegetable Oil Development Project (VODP) is a strategic effort by the Government of Uganda to: increase domestic vegetable oil production, address rural poverty through involvement of small holder farmers in oil crops production and cottage processing, improve the health of the population through increased vegetable oil intake in the villages and address the issue of food security through provision of alternative crops for income generation. The overall audit objective was to assess the implementation of VODP by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)

KEY FINDINGS

Under the Oil palm component, the nucleus estate covering 6,300 hectares (ha) against a target of 6,500 ha was established together with smallholder and out-grower farms measuring 3,296 ha against 3,500 ha. By June 2012, 1,286 smallholders/ out growers had been selected and were benefiting from the project. A palm oil mill of the capacity of 20 metric tons per hour was established at Bwendero in Kalangala while an oil refinery was established in Jinja where vegetable oil and by-products, such as soap are manufactured. By September 2012, a palm oil extraction mill was processing 500 MT of crude oil every fortnight.

In spite of these achievements the study has identified areas for improvement.

Delayed Implementation of the Project

The project experienced significant delays in implementation of the major activities. This mainly affected the Oil palm and Institutional support components, whose commencement dates were delayed by five (5) and six (6) years, respectively in order to support the project implementation.

Funding of Project Activities

GOU remitted UGX 13.03 billion of the expected disbursement of UGX 23.29 billion representing 56% performance level thereby affecting timely implementation of project activities.

KOPGT Loan Portfolio

UGX 2.3 billion had been recovered of the total UGX 26.366 billion disbursed. These funds are lying unutilized on the account. GoU and IFAD had not yet agreed on modalities of how it should be used for further oil palm development.

Provision of Production Inputs

- **Seed Multiplication and Distribution**

It was established that a total of UGX 369,005,200 that should have been realized from the sale of seeds to various districts during the period of UOSPA's contract was not deposited on a Revolving Fund as per implementation guidelines. Instead, Uganda Oil Seeds and Producers Association (UOSPA) deposited the sales proceeds on their company account. There was lack of clarity as to how much was realized and ploughed back for multiplication and distribution. The possibility that funds were not put to proper use could not be ruled out.

- **Distribution Channels for Groundnuts and Sesame**

While the project spent UGX 596,646,810 on research of improved varieties of four oil seed crops in SAARI, there were no distribution channels for two seed crops of groundnuts and sesame. The project did not have any information on how much of groundnut and sesame had been distributed to the farmers. Although UOSPA had been contracted as the only company to carry out multiplication and distribution, they distributed mainly sunflower and soybean.

Fertilizers

It was established that some farmers received less fertilizer than what was needed for their plantations while others did not receive certain types of required fertilizer. Furthermore, the farmers were not receiving fertilizers as and when required. On average, farmers spent about four to six months without fertilizers.

Provision of Extension Services

- **Essential Oil Crops**

The essential oil component, based in Tororo district, did not involve the established district system in the provision of extension services. The research team which was based at Namulonge Agricultural and Crop Resources Institute (NACCRI) in Kampala was instead in direct contact with the farmer groups contrary to implementation guidelines. The project did not provide any facilitation to the district and there was no designated district extension worker attached to the essential oil crop researchers and farmers for purposes of knowledge transfer and sustainability.

- **Traditional oil seeds**

The project did not achieve its targets in the provision of extension services under the traditional oil seeds component.

Extension services were intensified only during the early years of project implementation, the years that followed experienced a significant decline in the provision of the services.

Overall, for the period 1998/99- 2009/10, the project was able to achieve 74.5% of its targeted outputs for training, 74.6% for demonstrations and 64.5% for mobilization of farmer groups.

Market Linkages

- **Ram press for traditional oil seeds**

Through a local firm, 343 ram presses were procured, sold and distributed to farmers in the oil seeds project areas. Each ram press was sold at UGX 425,000 to farmer groups in oil seeds sub project areas. A total of UGX 145,775,000 would have been realized. However, there are no records to show how much was realized. Also, through the farmers' initiative and supervision of the project, a revolving fund was set up through which the proceeds were to be used to purchase more ram presses for distribution to other farmers. Without records, the progress of that scheme is not known.

Furthermore, despite the project incurring an amount of UGX 213,384,000 on training of extension officers, artisans and farmers in the operation and maintenance of ram presses, field visits revealed that most ram presses were lying idle at various district stores, while others were at the farmers' premises not utilized at all.

- **Commercial pilot Production of Essential Oils**

It was established that commercial pilot production of essential oils was not done. Whereas research on essential oils like Citronella, Lemon Grass, Africanus prunus, and shea nut was successfully done in the project districts of Mukono, Luwero, Pallisa, Tororo and Lira, the project did not encourage private sector counterparts to carry out the distillation of oils and support farmers to form outgrowers schemes around the private sector plant in the districts of Mukono, Luwero, Lira and Pallisa.

- **Distillers for Essential Oils**

Two distillers which were procured for Tororo and Pallisa districts at a total cost of UGX 16,100,000 were not in use. The one in Tororo has not been in use since 2007 while the one in Pallisa was delivered in 2008 at the closure of the project.

- **Formation of a National Essential Oils Association (NEOA)**

The project did not facilitate and support the formation of the NEOA. The purpose of the association was to provide a forum through which problems peculiar to the essential oils industry could be identified and solutions found. Apart from the essential oil crop farmers in Tororo who formed Rabong cooperative society, farmers in the other districts of Mukono, Luwero, Pallisa, and Lira were not able to organize themselves into similar organizations; they therefore had no forum through which their peculiar problems could be addressed.

- **Opening up of Farmer Access roads**

It was noted that whereas the roads were developed, they were not maintained. Some roads have developed gullies; others had over grown weeds; while others were too slippery rendering them impassable.

Adaptive Research

- **Oil Palm**

Whereas NARO/COREC carried out studies on identification of potential oil palm growing areas in the Districts of Masaka, Mpigi, Rakai, Buvuma Island in Mukono, Kibale and Bugiri an environmental impact for drainage and other cultivation practices for Oil Palm was not carried out.

- **Transfer of Knowledge**

Capacity building efforts of other officers at COREC were not adequate. The principal researcher at COREC was singlehandedly conducting research into palm oil. This officer was due for retirement by the end of 2013. No officer has been trained to carry on with palm oil research after his retirement. Further, the research staff is involved in research activities of other COREC mandate crops, namely: coffee, tea and cocoa; there is therefore need to have staff deployed solely on oil palm research, especially in agronomy.

- It was noted that NARO carried out a baseline survey and lemon grass, citronella, geranium, shea nut and prunus africanus were identified as suitable essential oil crops for research purposes. On station trials were undertaken at NARO Kawanda as well as on farm trials in the districts of Mbale and Kibale (geranium), Tororo (citronella), Palisa and Lira (lemon grass). On farm trials were also undertaken on prunus africanus in Mukono district. However, project activities on prunus Africana were discontinued due to limited funds.

It was further noted that the sub component depended on a single implementing research partner, whose funding was totally reliant on external funding. The Government/NARO did not replace IFAD funding at the end of the project.

KEY RECOMMENDATIONS

- For future projects of this nature key project risks such as those relating to land acquisition and project awareness should be identified early and mitigation measures put in place.
- Government should adhere to its funding commitments to facilitate timely implementation of project activities.
- The Ministry should liaise with all stakeholders to agree on the purpose for which these funds should be utilized.
- There is need to ensure that proper documentation is availed by UOSPA on the actual amounts collected before the contract ended. In future it is also recommended that the informal distribution channels are closely monitored to keep track of the amounts/volumes of seed distributed so as to assess whether project goals are being met.
- The project should partner with seed companies to enhance access to improved seed for oil seed crops by using their distribution outlets if farmers are to maximally benefit from VODP2.
- The project should work hand in hand with the district production office to provide extension services to farmers over the years. KOPGT should co-opt the more experienced farmers through their farmer association (KOPGA) to provide extension services to the new farmers.

- The project should continuously provide assistance to beneficiaries of new technologies to ensure their optimum use.
- The PCO should support farmers to form outgrowers' schemes and provide extension services as well as planting materials and create linkages with the relevant value chains. Farmers should also be supported to form organizations through which their unique problems can be addressed.
- There is need for the project, Kalangala Local Government and farmers to agree on a long term solution of cost sharing for both road and equipment maintenance.
- VODP and NARO should speed up the efforts of training other officers in palm oil research for purposes of continuity.

1.6.10 IMPLEMENTATION OF THE FUEL MARKING PROGRAMME

The Government of Uganda through Ministry of Energy and Mineral Development (MEMD) in collaboration with Oil Marketing Companies (OMC) established the Fuel Marking Programme (FMP) to control smuggling and dumping of transit fuel products into the country. This was to ensure quality of fuel products by eliminating fuel adulteration in the market thereby providing a levelled ground and fair play within Uganda's petroleum supply and marketing industry. The overall objective of the audit was to evaluate the implementation of the programme.

KEY FINDINGS

Under FMP, a central laboratory was established to test the quality of fuel in the country and two mobile laboratory vans with a Global Positioning System (GPS) were acquired for country wide monitoring. Fuel imported is inspected at the entry points and marked for quality control purposes. There is provision of prompt information and data on fuel import volumes from customs entry points to the MEMD – PSD on a daily basis. Through this study, a number of areas have been identified for improvement:

Comprehensiveness of Import inspection for quality parameters

It was established that the preliminary measurements/ tests of volume and density undertaken by the marking agent do not give conclusive results on the quality of the fuel as would be for laboratory comprehensive analysis which would test quality parameters such as sulphur content, viscosity, odour and distillation characteristics.

Procurement of marking agent -M/s Global Fluids International

The use of the direct procurement method for the procurement of the fuel marker was not in accordance with the PPDA Act and regulations and could have denied the ministry the opportunities that come along with competition.

Field monitoring of fuel outlets

The field monitoring team did not regularly meet the targeted 30% coverage of the total outlets over the audit period. The field monitoring teams met the minimum requirement in only 106 fuel outlets out of the registered 1,177. 259 fuel outlets had never been visited at all during the period under review.

Marking fees

The ministry increased the marking fee from UGX 5 per litre to UGX 10 per litre without conducting a market survey to establish a competitive market price. Moreover despite this increased fee rate, the outputs relating to critical activities like field monitoring and development of petroleum information system have not been achieved.

Coordination between FMP and URA

There was weak coordination between URA and MEMD on matters regarding FMP. For instance, there was no single reference case made by the FMP field monitoring team to URA in light of either dumped/smuggled fuel onto the local market. A total of 167 outlets were reported to have been sealed for being in possession of substandard fuel and penalized by the programme albeit there was no evidence that the cases were referred to URA for further investigations.

In addition, analysis of fuel import data provided by URA and GFI for the period 01/11/12 to 30/6/13 reflected an unreconciled volume of 6,332,090 litres of fuel over and above the URA import volume. This unreconciled volume had tax implications equivalent to UGX 4,978,118,360 which could have been lost.

Management and utilization of ready to use marker by UNBS and MEMD

There were cases of quantities of marker that were not accounted for.

An analysis showed that 9,177 litres of T1 and 231 litres of T2 remained unaccounted for in the financial year 2011/2012. This quantity could be used to mark 231,349,923 litres of fuel and in turn generate UGX 1,156,749,615 in revenue for FMP at UGX. 5 per litre marked.

In addition, using the ratios provided by UNBS and GFI, the marker reportedly used in financial years 2010/11 and 2011/12 should have marked an additional 542,903,589 litres of fuel and hence generate UGX 2,714,517,945 additional revenue for the programme.

National Petroleum Information System (NPIS)

The NPIS has not been developed as had been planned. The programme has continued to operate with a manual system which was noted to have challenges like lack of consolidation, delays in retrieval of various information and susceptibility to errors. This impacted on timely decision making by the key players involved in the programme.

Development of standards

Financial records show that UGX 217,137,000 was spent over the period FY 2010/11 to FY 2012/13 towards the development of 62 standards. However, to date, only 43 standards were developed and gazetted in 2012 but have not been operationalized.

Equipping and Maintenance of the Central Laboratory

The laboratory was not fully equipped and maintained to standard as a number of key equipment was missing. In addition, the current petroleum laboratory does not have equipment for testing octane and cetane numbers for petrol and diesel respectively. This equipment and the parameters they test are very critical for fuel quality and engine performance.

Items FMP Swapped with M/s GFI

From a review of the hand over report of UNBS to M/s GFI it was established that assets worth UGX 610,721,340 were handed over to the company free of charge yet the latter was demanding over UGX 1.3 billion in unpaid arrears from the programme for supply of the marker.

KEY RECOMMENDATIONS

- The Ministry should review the contract with a view of ensuring a more comprehensive assessment of quality.
- There is also need to speed up the procurement process for the semi automated equipment at the borders to complement the current preliminary tests conducted by GFI with detailed quality tests before marking
- The Ministry should in future undertake such procurements in accordance with the PPDA Act and Regulations to ensure achievement of value for money. Management should also consider reviewing the performance of the contract with a view of making the contract more favorable.
- The Programme Management Committee should prioritise funding for field monitoring since it is critical to the achievement of the programme objectives.
- The programme should undertake a comprehensive review of the activities under the programme and align them with the amounts that are charged/ remitted to carry out those activities, like monitoring, to ensure the programme is self sustainable.
- The key players UNBS, URA and MEMD should consult and agree on coordination and reporting mechanisms which should be properly documented.
- Management should ensure that the lost marker is properly accounted for.
- It is important that comprehensive needs assessment and liaison with all stakeholders is undertaken so as to develop a system that will address stakeholder information needs. These stakeholders should include URA, UNBS, OMCs, and GFI.
- MEMD and UNBS should ensure that standards are developed, gazetted and operationalized.
- MEMD should ensure that the petroleum laboratories

are adequately equipped and maintained to function properly to expected standards.

- There is need to speed up the disposal process so as to avoid further dilution of value of assets due to obsolescence, continued usage and handling.

1.6.11 PRODUCTION OF PRICE INDICES BY UGANDA BUREAU OF STATISTICS

Uganda Bureau of Statistics (UBoS) is a government agency established by the Uganda Bureau of Statistics Act (1998) as the principal data collecting and disseminating agency responsible for coordinating, monitoring and supervising the National Statistical System (NSS). UBoS publishes three major categories of price indices, including: Consumer Price Index (CPI), Producer Price indices (PPI), and Construction Sector indices (CSI). These indices are produced through collection of information from various stakeholders, analysis of the data and publishing the results to the various users in government, private sector and the general public.

The major objective of the study was to evaluate the process of production of indices in order to establish the extent to which they can be relied upon to produce credible statistics for decision making. Specifically, the scope of the audit covered three broad areas, namely: sampling methodology, price indices methodology and integrity of the computer systems used in the production of indices.

KEY FINDINGS

Over time, UBoS has made several achievements in the production of indices. In conformity with World Bank guidelines UBoS is compliant with weighting structure as the weights were allocated according to the expenditure value of each centre derived from the 2005/2006 UNHS. For expenditure weights, it was also established that the Bureau uses the plutocratic weights which is generally considered more appropriate particularly for consumer price indices which are constructed to be a general macroeconomic indicator.

UBoS also conforms to international recommendations regarding new products; the Bureau includes new products during rebasing and reweighting exercises. Computation of the indices is done using the (modified) Laspeyres formula for computation of higher level indices and Jevons formula for computation of elementary aggregate indices as per IMF/World Bank guidelines. Regarding price observation and collection, UBoS is in line with the international practice, UBoS surveys outlets at which Ugandan households purchase goods and services. Apart from items whose prices are centrally administered, each item is price surveyed in at least three outlets in each urban area. Price collection for CPI is timely. It was observed that, over the period 2009/10 to 2012/13, the Bureau released the CPI on time based on a pre-set timetable. In conformity with the general principle underlying the publication of official statistics, the CPI is made equally available to all at the same time in a press conference where all key stakeholders are invited.

In spite of these achievements, the study has identified areas for enhancement.

Sampling Methodology

Although UBoS uses a multi-stage stratified sampling design for CPI as recommended by best practice, exceptions where noted when locations were not selected using the probability proportional to size (PPS) systematic sampling method, as best practice recommends.

Sample Design and Selection:

Whereas the reliability of the indices produced is dependent on the adequate coverage of both rural and urban areas, which shows the complete picture of expenditure and price changes throughout the country, UBoS obtained data from only urban areas.

Index Methodology

- In contravention of the recommended best practise guidelines that recommend five years, the weight reference period for the Ugandan CPI is on average eight (8) years. The current reference period is 2005/06 updated from the previous weighting reference period of 1997/98.

- The methodology used for the production of the CPI limited its use to inflation targeting and setting of interest rates. The CPI produced by UBoS was not suitable for other uses such as indexation of wages, rents, contracts and social security payments.
- It was observed that UBoS uses the Uganda Country product classification system for product classification. This makes it difficult to compare Uganda's inflation with inflation in other countries. Internationally, the recommended product classification system is the Classification of Individual Consumption by Purpose (COICOP).
- Contrary to best practise, strongly seasonal products are excluded from the CPI in Uganda.
- Although the UBoS CPI manual shows that elementary aggregates that are no longer representative are excluded from the revised CPI basket at rebasing, it is not specific on what is done when a product permanently disappears during the inter-rebasing period (period between rebasing years).
- The Construction Sector Index (CSI) does not take into consideration regional differences (rural/urban) in construction costs. Regional differences can have a major impact on costs, prices, size, style (single dwelling versus multiple dwelling constructions, low versus high density dwellings, construction materials used, methods used.
- The sample for the CSI currently issued was developed on the basis of COBE 2001/02, which established the number of construction firms as 247. The latest COBE 2009/10 has an increase in construction firms to 653. Given the increase the sample currently used may not be representative.
- The data on wages paid for construction labour is only collected from construction companies every quarter without corroborating it with trade unions, trade associations, Social Security Organisations and household surveys of employees.
- The Output PPI compiled by UBoS is limited in scope. It is limited in use to only the manufacturing sector, leaving out other vital sectors like mining, agriculture and Utilities.

Price Index Computing Systems

- The CPI system is entirely based on MS Excel spread sheets functioning as well as a Database. MS Excel as a spread sheet cannot provide the much needed database capabilities for computing the CPI. The current CPI system does not offer the required differentiation between users for data capture, validation and analysis. The lack of segregation of duties and tracking of user system logs in the CPI system means that errors can go undetected.
- Lack of security policy to provide control over its information systems and lack of documented business continuity procedures to mitigate the risks of loss of vital data in the event of system failure. Generally, controls over backup of price data, planned validation of backups and indices production system audits were non-existent.

KEY RECOMMENDATIONS

- UBoS should use scientific process of listing and randomly selecting representative locations, which should cover both rural and urban areas within regions, so that levels of precision can be computed and presented with the CPI estimates. In addition a survey should be carried out to establish whether there are significant differences between rural and urban price changes.
- Being non-random, it is important to justify and explain how the method used and adequacy of size obtained would give confidence/assurance that the size is adequate for computing reliable CPI estimates.
- UBoS should carry out a needs assessment to identify the indices required by the various stakeholders including the expansion of the scope of the CPI and PPI for other uses, especially: agricultural, forestry, mining, indexation of wages, rents, contracts and social security payments.
- Given the rapid changes in consumption patterns in Uganda, especially, in the telecommunications sector, UBoS should update the weights frequently in a period less or equal to five years. In addition, reviews should be carried out of the weights attached to sub-indices and other major components of the indices whenever new UNHS data is available.

- UBoS should put in place a security policy to guide the control and management of the information system assets and resources. Such a policy should clearly articulate the roles, responsibilities, management commitment and coordination among the key players involved in the indices production process to ensure their reliability.
- UBoS should put in place a comprehensive Business Continuity Plan. The plan should be regularly tested to ensure that critical Bureau operations are maintained in the event of catastrophic events. There should also be regular audits conducted on the back-ups to account for all backups as well as for verification of the integrity of data.

PART II:

2.0 REVENUE FORECASTING BY MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

2.1 INTRODUCTION

2.1.1 BACKGROUND

The National Budget is a statement of a nation's spending priorities, and is governed by the Constitution and its attendant legislation. It is the key instrument through which Government implements its policies. A key metric behind any budget is the amount of revenue which will be raised to support this planned spending over the year to come. The government's policies supporting the aims of enhancing growth and eradicating poverty require an accurate view of available funding in order to be implemented effectively.

Revenue forecasts are predictions of future funding availability, given a set of assumptions about future scenarios. They facilitate strong financial management and informed spending decisions; and thus play an important role in a well-designed budget.[1] The organization responsible for revenue forecasting is the Ministry of Finance, Planning and Economic Development (MoFPED). Accurate revenue forecasts help financial planners to understand which expenditure paths are sustainable under the chosen set of assumptions. The use of up-to-date information and continuous forecasting also acts as an important monitoring tool to help decision makers to understand what their cash flow is likely to be, and thus what the risks of overspending are. The forecasts are a vital component of fiscal planning for governments and are informative of general macroeconomic health[2].

We have identified the following risks to value for money which result from the failure to forecast government's revenue accurately:

Over predicting revenues

Over-optimistic revenue forecasts lead to fiscal deficits. This implies that governments must either finance the deficits or cut back spending on planned programmes. Where spending cuts must be achieved at short notice due to financial pressure, it is unlikely that value for money will be achieved. This is because a systematic and value-driven assessment of where to make cuts requires time to carry out.

Under predicting revenues

A pessimistic/conservative revenue forecast on the other hand leads to over- realization of revenue (revenue

1 IMF Working Paper: Revenue Forecasting (pg. 3)

2 Ryan D Edwards : Forecasting Government Revenue and Expenditure in the U.S. Using Data on Age-Specific Utilization

overruns/budget surplus) which may attract spending that has not been subjected to legislative scrutiny and approval. At the point of deciding spending priorities for the year ahead, this also implies that opportunities to invest in worthwhile projects will be missed and existing programmes may be deprived of funding that will allow them to grow to a more optimal size. Forecasts of revenue which understate the potential yields may also risk setting tax collection agencies targets which are too easy to achieve.

Reputational risks with financiers

Government's fiscal credibility with its lenders may be damaged if it cannot forecast accurately its ability to repay in future years. All other things being equal this will tend to lead to an increase in the cost of borrowing.

Revenue forecasting defines the budget envelope and forms the basis for effective medium term planning[3]. In order for the Ministry of Finance, Planning and Economic Development to come up with the revenue forecast, it has to liaise with key stakeholders that are; BOU, URA and UBOS.

2.1.2 MOTIVATION

The national Budget is the tool government uses to execute its Fiscal policy in an effort to maintain Macroeconomic stability and its goal of attaining a rapid, broad based and sustainable growth consistent with transforming the country to a middle income status in the medium term. In 2012/13, the OAG conducted a study on the implementation of National Budget with the main objective of assessing the adequacy of the budget implementation procedures in delivering the intended outputs and enhancing the delivery of services to the public. The major findings of the study were that the implementation of the National Budget was hampered by inadequate planning, monitoring and supervision, limited expertise and failure by government to adhere to its funding obligations. There were also gaps in the cash management process whereby the budget and cash releases followed cash rationing practices and lacked predictability.[4]

Sound budgeting requires good knowledge of the resources available to the government, meaning that government must strive to forecast the ability of the economy to generate revenue, and the ability of the relevant agencies to collect it. This should be done with due regard to the four pillars of good governance in public sector management namely; Accountability, Transparency, Predictability and Participation.

The Government has set ambitious targets to increase revenue as a share of GDP, but it has not so far achieved this goal. Despite the target of increasing domestic revenue as a proportion of GDP by at least 0.5% of GDP each year over the medium term, the ratio of domestic revenue to GDP ratio has remained broadly flat at an average of only 12.6% of GDP between 2006/07 and 2012/13 (Figure 1). This is rather lower than figures reported for neighbouring East African nations such as Kenya (19.5 percent) and Tanzania (15.7 percent)[5]. This is a blow to the prospects of the government achieving the Millennium Development Goals - the International Monetary Fund (IMF) noted that achieving them will require raising domestic revenue in low-income countries (LICs) by around 4% of GDP (United Nations, 2005).

Improved revenue forecasting and mobilization would improve the Ugandan budgeting process, helping to match spending plans more closely to the availability of funding. In 2012/13, the URA registered an average monthly performance of only 22.89% of the collectable amount of tax as compared to its performance target of 50%.[6] This has undoubtedly contributed to the situation wherein the Ugandan Government continues to experience Budget deficits which averaged an annual 2.15% of GDP from 1999 until 2012.[7] At 80% of the National Budget, domestic revenue will play the biggest role in closing the budget deficit, given that the 20% of funding accounted for by External financing is projected to decline in future years.

3 IMF Working Paper: Revenue Forecasting

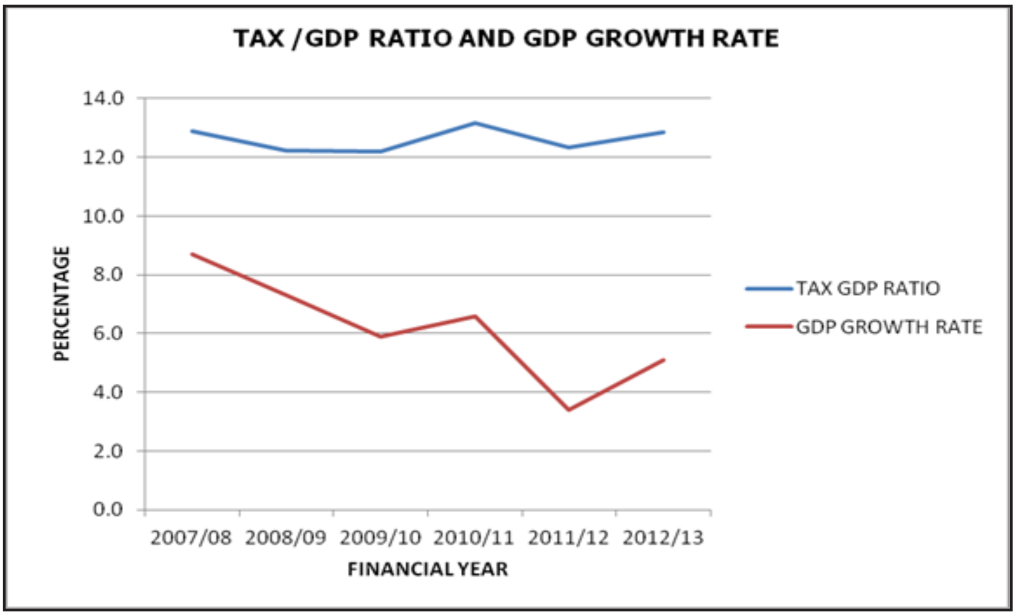
4 OAG Annual report (2012/13) Vol. 5

5 World Bank data for the 2011/12 financial year

6 MoFPED Annual Revenue Performance Report, 2012/13.

7 World bank data

Figure 1 The ratio of URA revenue to GDP



Source: Revenue Performance Report 2010/11 and MoFPED revenue forecasting and GDP model.

In terms of the forecasting approach taken by MoFPED, citizen participation in preparation of the budget is still minimal;[8] the process, methodology and tools used for budget revenue forecasting have been criticized, with concerns that the economic models used have not been reviewed for the last 10 years. In the 2012 assessment of Ugandan public financial management, revenue forecasting received the lowest-possible score (D), due to a large revenue shortfall in 2009/10 and a large revenue surplus in 2010/11.[9]

There are also concerns over:

- The transparency of MoFPED revenue forecasting process say, publication of assumptions used in public media.
- The definition of the roles and responsibilities of key players: The Minister of Finance, Director Economic Affairs and Director Budget, Commissioners: Macroeconomic Policy Department and Tax Policy Department.
- The clarity of formal rules and regulations on revenue forecasting, such as; the Budget Act, 2001 and Public Finance and Accountability Act, 2003.
- The ongoing tendency of the last quarter of the financial year to be characterized by spending cuts due to public expenditure plans not being matched by revenue receipts. This has necessitated delays to the implementation of programmes or even cancellation.

Furthermore, there are reports that URA has consistently met the revenue targets set for it by MoFPED over the last three years under review.[10] This raises a question around whether the URA revenue targets are appropriately challenging given the low level of Tax/GDP ratio which has stagnated over the years.

It was therefore against this background that the Office of the Auditor General deemed it necessary to undertake an independent assessment of the National Budget resource mobilization process with particular emphasis on the tax revenue forecasting process.

8 2012 Open Budget Survey

9 MoFPED, Central Government Public Expenditure and Financial Accountability Assessment Report, September 2012.

10 MoFPED's analysis of revenue outturns

2.1.3 DESCRIPTION OF THE AUDIT AREA

General description

The Ministry of Finance, Planning and Economic Development (MoFPED) derives its mandate from the 1995 Constitution of the Republic of Uganda as amended and related Acts of Parliament. The Ministry offices are located in Kampala.

MoFPED is the Government entity charged with the responsibility of spearheading the National Budget Formulation process. It executes its budget formulation role majorly through the Directorate of Economic Affairs and the Directorate of Budget. It does its work to ensure that Government meets its primary macroeconomic objective of "promoting rapid, broad based and sustainable growth consistent with transforming the country to a middle income status in the medium term". The process encompasses economic management, resource mobilisation, and allocation. Budget formulation is done annually and it involves other stakeholders, including: Bank of Uganda, Uganda Bureau of Statistics and Uganda Revenue Authority. The MoFPED uses the National Development Plan (NDP) and the manifesto of the ruling party as a guide to Budget formulation.

Legal Framework/mandate

The legal framework for resource mobilization for the national budget is guided by Chapter 9 Article 155 of the 1995 Constitution of the Republic of Uganda, which provides for resource mobilization, allocation of budget resource and revenue estimation. Chapter 11 (Eleven) Articles 190-197 of the Constitution on the other hand, provide for planning and budgeting for the finances of local governments.

The mandate of the Ministry of Finance, Planning and Economic Development is: to mobilize local and external financial resources for public expenditure; to regulate financial management and ensure efficiency in public expenditure; to oversee national planning and strategic development initiatives for economic growth; and to formulate policies that enhance economic stability and development.[11]

The mandate is further amplified by the Budget Act 2001 which outlines the budget formulation procedure and provides for the budget calendar.

The budget formulation process is also governed by a well-defined set of regional guidelines and international conventions like Millennium Development Goals (MDGs) and the International Monetary Fund (IMF) charter particularly article four, and the ruling party manifesto provides the ruling party's priorities for incorporation into the budget.

Vision and Mission Statement

Vision

The vision of MoFPED is to be "A most effective and efficient Ministry of Finance, Planning and Economic Development that is capable of achieving the fastest rate of economic transformation among the emerging economies."

Mission

The mission of MoFPED is "To formulate sound economic policies, maximize revenue mobilization, and ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development."

Organization Structure

MoFPED has a Cabinet Minister as the institutional head. The Minister is assisted by five (5) Ministers of State who are responsible for: General Duties, Planning, Investment, Privatization, Micro Finance and Enterprise Development. There is the Permanent Secretary (PS) who is the chief technical executive and doubles as the Secretary to the Treasury.

The PS is deputized by the Deputy Secretary to the Treasury and an Undersecretary who doubles as the Head of the Finance and Administration (F&A) Department as well as the Accounting Officer for the Ministry. The entity is divided into three (3) Directorates namely: Budget directorate, Directorate of Economic Affairs, and Accountant General's Office all of which are headed by Directors and each directorate is composed of

11 MoFPED Ministerial Policy Statement 2011/12 Pg. iii

Departments supervised by Commissioners.

Objectives of the MoFPED in relation to budget formulation

The specific objectives of the National Budget formulation are:-

1. To undertake Macroeconomic Management
2. To mobilize Resources to finance the National budget.
3. To allocate budget Resource to MDAs.

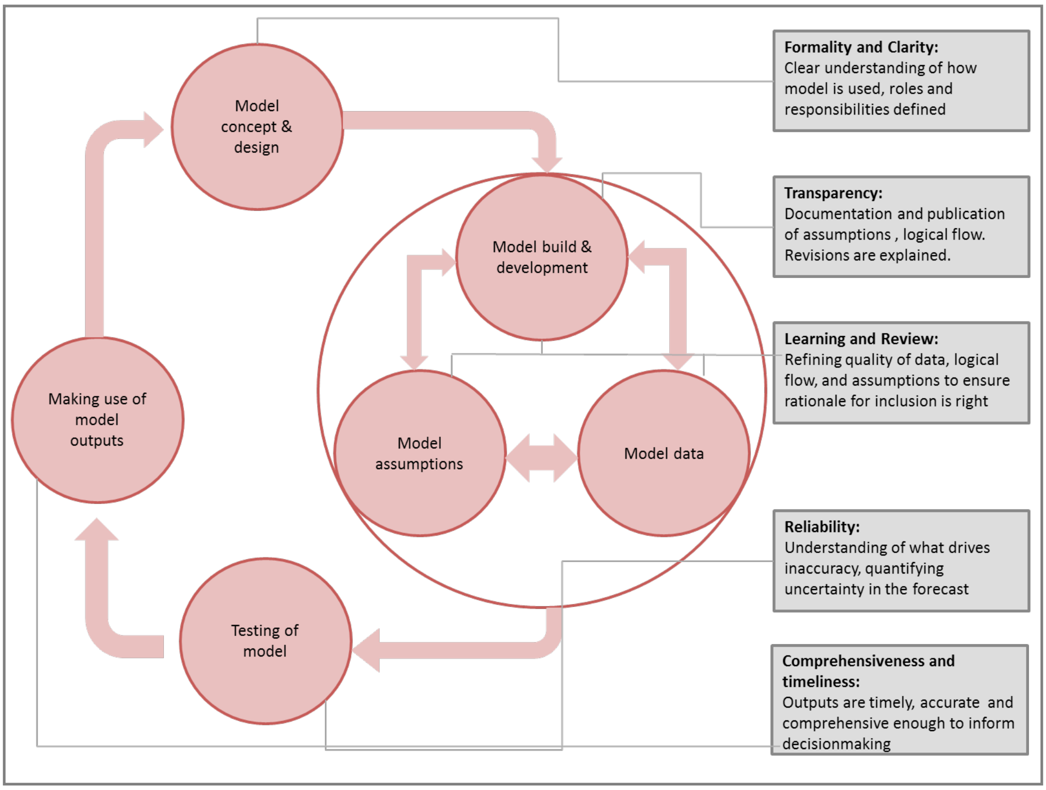
The focus of this study is on objective 2 (two).

2.1.4 AUDIT OBJECTIVE

The overall objective of the Audit was to assess the effectiveness of the tax revenue forecasting process. In doing so, the audit assessed how, Formality and clarity; Comprehensiveness and timeliness; Transparency; Reliability and Learning and review characteristics were implemented during the budget formulation process:

The audit criteria are based on the International Monetary Fund standards and the UK National Audit Office (NAO's) practices or procedures used in the assessment of revenue forecasts[12] as shown in Figure 2.

Figure 2: Audit criteria for assessing a revenue forecast model



Source: IMF working paper 0502

2.1.5 AUDIT SCOPE

The Audit focused on the National Revenue forecasting process. It considered aspects of macroeconomic management, revenue forecasting and capacity issues within the directorate of economic affairs. Issues related to coordination amongst the different MoFPED directorates and other agencies involved in revenue mobilization were also considered. This was done in order to obtain assurance that the revenue forecasting

12 IMF, Revenue Forecasting – how is it done?
National Audit Office, Forecasting in government to achieve value for money.

process is effectively executed to enable sound budgeting and efficient revenue collection.

The Audit was conducted on the National revenue forecasting process by MoFPED and it covered three financial years 2010/11-2012/13. To provide context, the audit also includes data from earlier years.

2.1.6 AUDIT METHODOLOGY

Sampling

The study was mainly conducted at Ministry of Finance Planning and Economic Development headquarters, Bank of Uganda, UBOS and URA. In addition, eight selected districts of Soroti, Mbale, Gulu, Arua, Bushenyi, Mbarara, Mubende and Rakai were visited to obtain an in depth understanding of the revenue forecasting process and the extent of involvement of the Local governments in the process. The districts were identified by stratifying the country into regions and then selecting the districts on a random basis.

Data collection

The following data collection methods were used to gather audit evidence:-

Document review

Documents were reviewed with the view of obtaining an in-depth understanding of the audited entity and specifically the area of study. These included: Ministerial policy statements, National Budget Frame work papers, Budget speeches, State of the Nation Address, Budget Act 2001 and the PFAA, 2003.

Interviews

The Audit team conducted 10 interviews with MoFPED officials, officers in URA, UBoS, IMF, Department for International Development (DFID) and Bank of Uganda which are key agencies involved in the National budget revenue forecasting process. This was done to corroborate information obtained from other data collection methods.

Data analysis

Collected field data was analyzed to establish performance trends in the revenue forecasts over the period under study as well as to determine variations between planned and actual revenue outturns. The analysis was also intended to check compliance with the established budget revenue forecasting procedures, laws and regulations. The models used to carry out revenue forecasting were also assessed.

2.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The audit noted that the overall revenue forecasting errors were quite low averaging at about 0.3% over the period under review. Efforts were also being made to come up with a more robust GDP Integrated Macro Economic model in order to improve GDP growth forecasting. It was also noted that MoFPED published macro assumptions in the budget documents and endeavoured to provide analysis and report on revenue performance in the Revenue Performance Report. A degree of coordination between some of the key entities in the forecasting process was noted and it was evidenced by the weekly and monthly meetings. It was also noted that the participating entities were clear on their roles and responsibilities and the timelines.

There has been tremendous improvement towards the financing of the country's national budget using domestic revenue. Domestic revenue currently finances approximately 80% of the National budget.[13] External financing on the other hand accounts for 20% of the National budget and is projected to decline over the years.

Despite the achievements above, audit noted some areas that need improvement.

13 2013/14 budget speech

2.2.1 FORMALITY AND CLARITY OF THE REVENUE FORECASTING PROCESS

According to the International practice[14], the Revenue forecasting process should be formally initiated, documented and regularly reviewed. Formal forecasting (scientific/econometric) methods should be used and the forecasting procedures and responsibilities should be formally defined in the relevant legislation and/or guidelines and complied with.

A review of the PFAA, 2003, the Budget Act, 2001 and interviews conducted with staff from the Directorate of Economic Affairs (Macroeconomic and Tax policy departments) at MoFPED confirmed that there was no formal documentation of how the revenue forecasting process is initiated and how revenue forecasting responsibilities are shared between the relevant agencies and departments.

In addition, despite the Tax Policy Department (TPD)' assertions that the forecasts were regularly reviewed internally; there was no documentation to support these reviews and the entire revenue forecasting process.

The Departments responsible for revenue forecasting could not provide a body of econometric and/or macroeconomic evidence supporting the approach they had adopted. We found that instead of macroeconomic justifications for the modelling approach, basic extrapolations were used in excel spreadsheet models based only in part on macro assumptions and influenced by the forecaster's judgement.

It was further noted that deliberations take place during and after the modelling exercise before a final tax revenue target to URA is reached which are not clearly documented. This casts doubt on the level of transparency and credibility of the revenue forecasting process.

Another aspect of formality and clarity was the way GDP forecasts as given in the National Development Plan (NDP) and Vision 2040 are used as growth targets in the Medium Term Expenditure Framework (MTEF). The officials in the Macro department, which is charged with forecasting GDP, explained that within the MTEF, modelling is done for GDP growth forecasts of the first Financial Year and GDP targets as given in the NDP (currently 7%) are assumed for the subsequent years. Since the MTEF guides fiscal planning for the sectors, treating GDP targets in planning documents as forecasts could be misleading.

The absence of formal procedures to guide the revenue forecasting process was attributed to gaps in the existing legislation and/or lack of the relevant legislation to guide the process. The absence of formal rules to guide the revenue forecasting process does, however, point to the lack of a well-structured process for forecasting. The lack of proper or formal documentation of revisions of the forecasts exposes the forecasts to covert interference and makes them vulnerable to adjustments. This may affect the accuracy of the forecasts and render any external assessment of quality of the forecasting process difficult.

Management Response

The rules were very clear and the roles were derived from the Ministry's mandate. Revenue forecasting is part of the Budget process which is well stipulated in the Budget Act 2001. The roles of each department are clearly spelt out in the Ministerial Policy Statement. TPD is in charge of tax policy formulation and tax revenue forecasting.

The Directorate of Economic affairs also has an activity chart which outlines the timing of all activities and outputs of the directorate during the budget process.

Auditor's Response

There are gaps in the Budget Act, 2001 and PFAA, 2003 as they do not clearly define roles, procedures and responsibilities for the revenue forecasting process.. Besides, there was general lack of formal documentation of the entire revenue forecasting process.

Conclusion

The absence of formal rules to guide the revenue forecasting process and the continued use of subjective assessments (non-scientific methods) to project the National resource envelope makes the revenue forecasting process informal and could compromise the credibility of the revenue forecasts.

14 The Political Economy of revenue forecasting (IMF WP/05/2)

Recommendations

MoFPED should:

- Draw up formal rules that clearly spell out and guide the revenue forecasting process;
- Initiate formal documentation of the entire revenue forecasting process with particular emphasis to revision of forecasts to eradicate/minimize bias.
- Design, adopt and implement/use the scientific (econometric) methods in its revenue forecasting process in order to enhance the accuracy and reliability of the forecasts and elicit public confidence in the budgeting process.

2.2.2 COMPREHENSIVENESS AND TIMELINESS OF THE REVENUE FORECASTING PROCESS

Comprehensive and timely revenue forecasts are important to allow an accurate, relevant and complete picture of the national resource envelope. The IMF Fiscal Transparency Code[15] stipulates that budget projections should be based on comprehensive macroeconomic and revenue forecasts which are disclosed and explained. According to the IMF working paper[16] a more comprehensive scope of revenue forecasts (covering the entire public sector and inclusive of all revenue sources) is more desirable than a narrow scope that is limited to Central Government operations only. Revenue forecasts should also cover the timescales of budgetary planning; for instance, medium-term budgetary planning will require forecasts of revenue over the next three to five years.

Comprehensiveness

Through interviews with officials from the tax policy and macroeconomic departments at MoFPED, it was noted that the revenue forecasts were limited in scope to only the Central Government operations which only includes tax revenue forecasts as shown in table 1.

Table 1: Showing tax revenue Projections by tax head (UGX Billions)

TAX CATEGORIES	2008/09	2009/10	2010/11	2011/12	2012/13
DIRECT DOMESTIC	**1020.1**	**1,249.60**	**1,589.27**	**2,033.23**	**2,400.20**
PAYE	515.0	684.40	753.20	1,057.10	1,198.80
Other direct domestic taxes	505.1	565.20	836.07	976.13	1,201.40
INDIRECT DOMESTIC	**903.9**	**956.49**	**1,195.02**	**1,237.47**	**1,578.30**
Excise	271.6	306.65	323.80	383.81	427.90
VAT	632.3	649.84	871.22	853.66	1,150.40
INTERNATIONAL TRADE	**1914.2**	**2,270.41**	**2,237.70**	**2,946.08**	**3,357.50**
Tax Refunds	**-96.0**	-92.45	-108.68	-168.46	-180.30
FEES AND LICENCES	**108.5**	**90.18**	**121.06**	**120.90**	**129.00**
Government payments	30.0	41.81	60.72	60.72	-
Total - Gross (excl. Gov tax)	3850.7	4,474.23	5,034.37	6,169.22	7,284.70
TOTAL (NET)+Measures	**3820.7**	**4432.4**	**4,973.65**	**6,108.50**	**7,284.70**

Source: OAG analysis of TPD revenue projection spread sheets

15 IMF Consultation Draft - July 1, 2013.

16 IMF working paper WP/05/24, pg 7

The Local government operations and some Non-Tax Revenue were not included. This was attributed to the fact that the mandate of TDP is limited to tax revenue forecasting.

Limiting the scope of forecasts to only central government tax revenue does not provide a full view of the resources available for the spending entities. As a result, budget decisions may be based on an incomplete assessment of the position of the economy.

Timeliness

It was noted that a Directorate of Economic Affairs revenue forecasting calendar was available, with clear timescales for each activity over the budget cycle. Interviewees reported that planned timescales for the production of forecasts are met in practice, and there is regular coordination between the bodies involved in revenue forecasting (i.e. UBoS, BoU, and MoFPED). However, there was no documentation to verify whether these timescales were actually being met as reported.

Length of forecasts

MoFPED produces forecasts of revenue for the next five years, to assist medium-term budgetary planning. However, it does not forecast revenue over shorter time periods, such as monthly or quarterly. This means that MoFPED is forced to rely on comparisons with historical trends rather than economic indicators in order to assess whether unusually low revenues are likely to lead to an overall deficit. MoFPED also does not forecast long-term revenue which could arise due to changing demographics. This could lead to Government making sudden changes to spending or revenue collection processes that are unnecessary and bad value for money.

Disaggregated forecasts

Audit noted that MoFPED lacked disaggregated models to look more closely at forecast revenue for individual tax heads but rather uses one model to adjust past outturns for tax revenues for macroeconomic projections in order to arrive at new estimates.

The failure to make disaggregated forecasts using disaggregated models was attributed to staffing shortages, although we identified that there was potential in future for the TPD department of MoFPED to utilize the micro simulation model development of the URA to improve its own forecasts for VAT and income tax instead of using an aggregated approach. A lack of disaggregated forecasts calls into question the methodology used to arrive at various tax policy measures and the associated impact. Disaggregated forecasting allows for a detailed analysis of tax performance which is likely to be more accurate through taking into account the responsiveness of individual taxes to macroeconomic and administrative factors.

Management Response

TPD does forecasts for all Non Tax Revenue with the exception of dividends which is done by MEPD. TPD does not forecast Local Government Revenue (LGR) because its mandate is limited to central government taxes. Local Government Finance Commission is in charge of forecasting LGR. The Local Government Act empowers Local governments to impose and collect LGR. Management considered the need to amend the law to widen TPD scope.

MoFPED uses a macro model for forecasting tax revenue. The macro assumptions are used to forecast individual tax heads. Micro simulation models use micro assumptions for each tax head. This would minimise the precision error. For lack of tax head specific models management explained that efforts were being made to address the concern.

A MoFPED forecast on a monthly basis and at the end of each quarter advises accounting officers on the revised tax revenue projection based on the actual performance.

Audit Response

Revenue forecasts covering the entire public sector and all revenue sources provide an accurate, relevant and complete picture of the national resource envelope.

Conclusion

A gap in coverage in revenue forecasts means that the Government and public will not have a definite picture of the overall resources available to the country.

Recommendations

MoFPED should:

- Incorporate forecasts of Local Government and non-tax revenue alongside its forecasts of central government revenues in order to come up with a complete picture of projected revenue collection.
- Should work with URA to improve detail of forecasting at the micro and regional level
- In partnership with the URA, develop disaggregated models to forecast revenues for individual tax heads using information on the macroeconomic and administrative factors affecting collections.

2.2.3 TRANSPARENCY OF THE REVENUE FORECASTING PROCESS

In order to enhance the transparency of the revenue forecasting process, non-government agencies (CSO, private sector, academia/ research institutions) should participate in the revenue forecasting process; the macroeconomic assumptions should be made public (i.e. presented in detail in the budget documents and published in other documents outside budget)[17].The forecasts should also be broken down into revenue types (tax heads) and a database of past revenue outturns should be maintained and used in coming up with new forecasts. In addition, a summary of macroeconomic assumptions should be prepared and past forecasts should be analyzed and publicized.

The Audit revealed that overall, the level of transparency in the revenue forecasting process was limited. Although some macroeconomic inputs to the model were published in the budget documents, they were not published outside the budget documentation as required. There is also no documentation describing the models used to forecast both GDP growth and revenues. Besides, there was no evidence of analysis of past forecasts presented for audit. There was no clear documentation of how certain estimates such as GDP growth rates and elasticity are generated.

Audit further noted that participation of non-government agencies in the revenue forecasting process was limited to the IMF. Other key players like CSO, private sector, academia/research institutions are currently excluded.

The non-compliance with the IMF revenue forecasting requirements by MoFPED was attributed to lack of an appropriate legislation and clear guidelines to govern the forecasting process and ensure transparency and accountability.

The limited transparency in the revenue forecasting process reduces the opportunity for verifying the authenticity and validity of the forecasts and underlying assumptions and increases the chances of discretionary adjustments on the forecasts. Besides, the forecasts fall short of assuring the public of the credibility of the revenue forecasts due to limitations for independent evaluation in the absence of clear documentation and publication of processes and data/models used. Lack of an extensive analysis of past forecasts on the other hand makes it difficult to identify areas for improvement in revenue forecasting.

Failure to publish performance of key targets such as revenue / GDP ratio limits debate on how to improve performance. Furthermore, publication of revenue forecasts and outturns by tax heads would enable identifying those tax categories which are persistently underperforming or for which forecasts made are not feasible/achievable.

Management Response

The level of transparency is being addressed in the new Public Finance Bill before Parliament. Macro assumptions are published in the Budget framework Paper, Background to the Budget, Economy performance reports, tax revenue performance reports and directorate reports.

The documentation model uses is available in soft form. This can be done in hard copies.

Independent evaluation is not a requirement in the existing laws i.e. Public Finance and Accountability Act (PFAA) or Budget Act.

Although participation of NGOs is not a requirement

17 I IMF working paper (WP/05/24

in the PFAA or Budget Act, the budget process is participatory. During sector working groups, national budget conferences, local government conferences and during Parliament debates all stakeholders are expected to raise any issue related to the budget including revenue projection.

Audit Response

Transparency of the revenue forecasting process is limited given that the publication of macro assumptions is restricted to budget documents and participation of key stake holders and the general public is also limited. The Public Finance Bill, 2012 is not yet law and the National Budget Conferences do not specifically address revenue forecasting issues. Documentation describing the models used in revenue forecasting was not availed for audit scrutiny and verification.

Conclusion

A high degree of transparency encourages an effective forecasting process and limits the scope for interference. The amount of publicly available information and involvement of non-government agencies in the forecasting process has a positive impact on forecasting discipline and minimizes discretionary adjustments to forecasts.

The inability of MoFPED to comply with the IMF Fiscal Transparency Code which spells out good practice for forecasting compromises the transparency of the forecasting process. This also denies government assurance on the credibility of forecasts produced.

Recommendations

MoFPED should:

- Publish macroeconomic assumptions in other documents outside the budget documentation for public consumption in order to encourage performance monitoring and accountability.
- Encourage the participation of non-government agencies in the process of forecasting macroeconomic indicators and revenues forecasting, in order to protect the system against the potential risk of manipulation.
- Report prominently on how revenue as a proportion of GDP has changed in each year.
- Publish the tax gaps for the public to know which taxes are performing poorly and why.

2.2.4 RELIABILITY AND CREDIBILITY OF THE REVENUE FORECASTING PROCESS

A reliable process for forecasting revenues should:

- Be based on good practice economic and statistical models, with clear internal logic.
- Incorporate robust and well-validated assumptions.
- Have strong arrangements for quality assurance, usually including review by external experts.
- Display good congruence between forecasts and actual outturns, with understanding of the reasons for any differences.
- Be founded on a broad base of expertise, to ensure that staff moves or departures do not have major impacts.

Forecasting models

The models used by MoFPED to forecast revenues and GDP are relatively basic, based on Excel worksheets that incorporate factors including inflation, GDP, import volumes, exchange rate, policy measures and URA efficiency among others. This produces benefits in terms of simplicity and clarity, but makes it difficult to assess changes in approach in detail. Moreover, the revenue forecasting model of MoFPED includes a term for 'elasticity' (for instance, the responsiveness of revenues to GDP changes) which is estimated separately depending on the various bases for individual tax heads but also based on the modeler's judgment of the reasonable effect on the overall forecast. Ideally elasticity assumptions should be based on statistical or econometric analyses. Any changes to the overall forecast should be made explicit, rather than being hidden away in unjustified alterations in elasticity assumptions.

Robust and well-validated assumptions

There are regularly substantial changes to the base GDP numbers used in revenue forecasting, both between initial estimate and revised estimate, and between revised estimate and next year. For instance, GDP at market prices for FY 2009/10 was estimated at UGX 34,530 billion in Sep / October 2010, but UGX 34,908 billion in Sep / Oct 2011, a difference of UGX 378 billion. Similarly, GDP growth at market prices for FY 2012/13 was estimated at 5.1% in June 2013 and at 5.8% in October 2013. The lack of a well-validated baseline position means that it will always be difficult to forecast

GDP growth rates accurately which in turn affects revenue forecasts.

Quality assurance

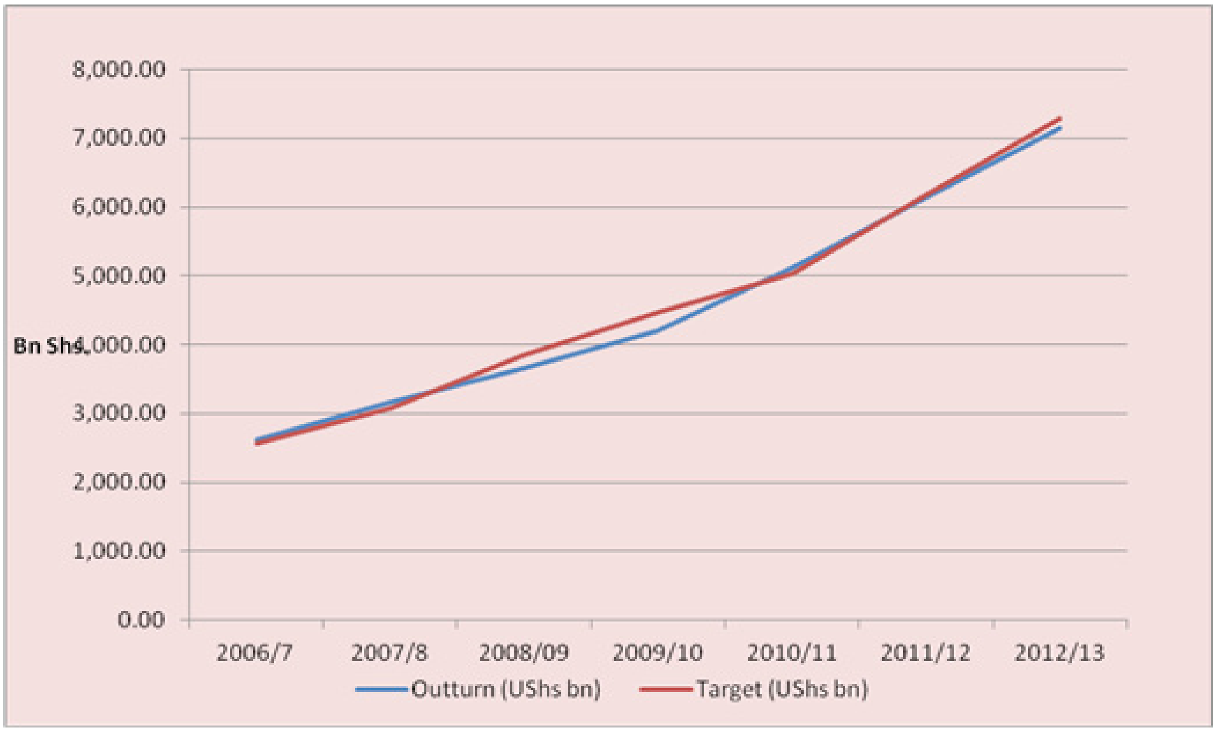
According to the IMF Fiscal Transparency Code[18] Government fiscal forecasts should be subjected to independent evaluation to evaluate the credibility of the government's economic forecast. The forecasts of MoFPED are reviewed by the IMF during the year, but there is no other independent review.

Interviews with the Tax Policy Department of MoFPED revealed that a degree of discretionary adjustment was made to the forecasts derived from the forecasting model to ensure that the targets are met by URA. This undermines the credibility of the forecasting process and brings into question the authenticity of forecasts made by MoFPED.

Figure 3 shows that URA has consistently achieved or out-performed the revenue targets set, which brings into question the way the forecasts are done.

Several governments have found that an independent entity to review and give government assurance on the macroeconomic and revenue forecasts can improve their credibility and reliability.

Figure 3: Tax revenue performance against the target FY 2006/07 - 2012/13



Source: Tax Policy Department, MoFPED

Forecasting performance

For the period 2010/11 to 2012/13, the revenue collected by the URA represents an achievement very close to the targets set for it by MoFPED. Collections ranged between 98% and 101% as shown in table 2 below.

18 IMF Consultation Draft - July 1, 2013,

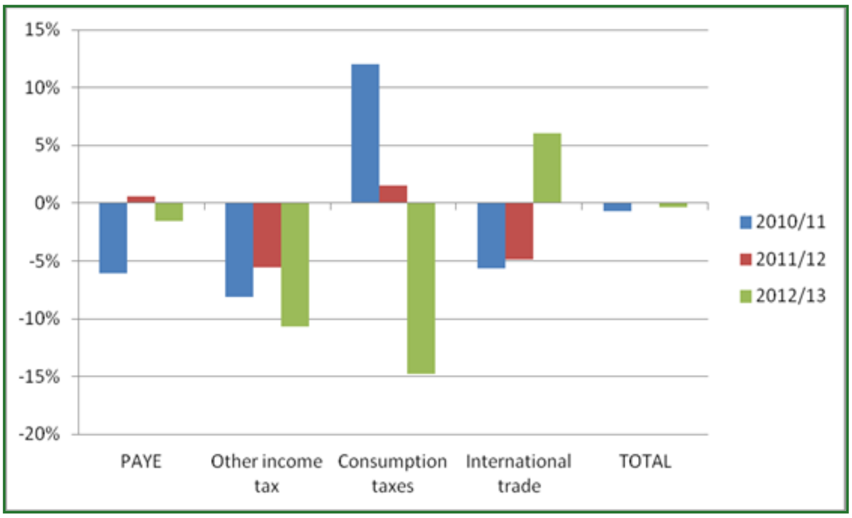
Table 2: Showing revenue targets and collections for FY 2010/11 to FY 2012/2013

	FY 2010/11	FY 2011/12	FY 2012/13
TARGETS	5,034.37	6,169.26	7,250.50
COLLECTIONS	5,114.20	6,135.94	7,284.67
DIFFERENCE	**79.83**	**-33.32**	**34.17**
REVENUE PERFORMANCE	**102%**	**99%**	**100%**

Source: Domestic revenue performance report, MoFPED

One possible conclusion to be drawn from this phenomenon is that the targets which have been set are not ambitious enough – especially given the failure of revenue to achieve the annual target of adding 0.5% of GDP to the budget. Moreover, the overall accuracy of the aggregate forecast is in contrast to the accuracy at the level of individual taxes which is much more volatile (Figure 4) – suggesting that the accuracy which has been achieved could be down to chance rather than the accurate forecasting of individual taxes.

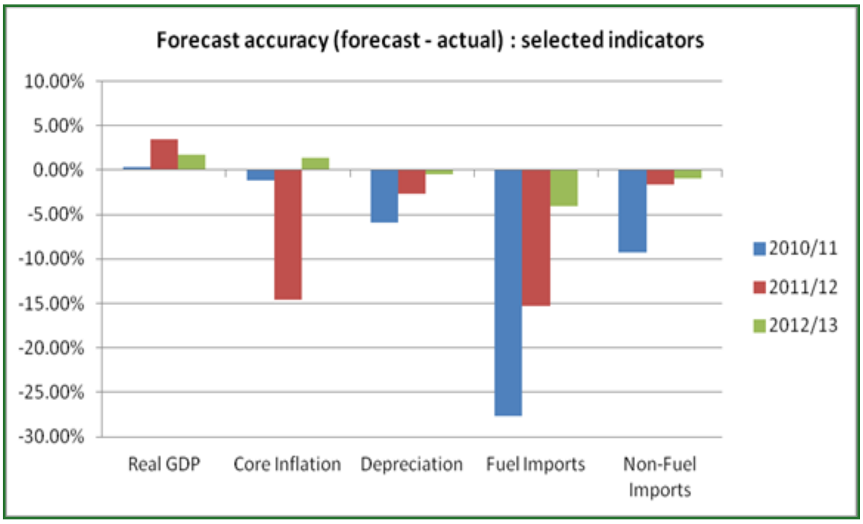
Figure 4: Forecasting error as a percentage of outturn, 2010/11 - 2012/13



Source: OAG analysis of Tax revenue projections and outturn data from TPD

These forecast errors have been partially driven by errors in forecasting key input assumptions, particularly inflation and imports, along with mistaken assumptions about how revenues will change as GDP changes. Figure 5 shows that there have been large errors in the forecasts of some key variables in the last few years.

Figure 5: Forecast accuracy of macroeconomic inputs to the revenue model



Source OAG analysis of selected indicators projections and outturn data from MEPD

Expertise

It was noted that the bodies involved in revenue forecasting have limited expertise; the current staff structure was small and often relies heavily on one or two individuals. For instance, both Macroeconomic and Tax Policy Departments of MoFPED each had only one staff doing the modelling. This was attributed to staffing gaps within the departments and the difficulty to retain modellers. Reliance on such a small number of staff in modelling raises concerns over credibility and reliability of the forecasts, and raises the prospect of a skills gap if the staff member were to leave the department. The MEPD commissioned a consultancy firm to develop a new macroeconomic model, .however; .it currently lacks the skills to operate this model effectively.

Management Response

Models are designed to suit the circumstances under which they operate. Any tax revenue forecasting model which does not take into account the practical implementation realities is based on academics and is therefore bound to fail.

Tax elasticity is calculated based on the formula. However, when detailed data is not available, intuition is used. This is normal in any forecasting and the adjustment is to eliminate outliers.

MoFPED uses a macro model for revenue forecasting which uses macro assumptions and that the Ministry is in the process of reviewing the model to build micro simulation models for each tax head. This will lower precision error.

The targets are delivered from the model. The targets are based on the projected performance of the economy, tax policy changes and URA projected efficiency.

However, if there are shocks which may have been unpredictable, then huge variations are possible but this should not imply a conservative or challenging target.

Auditor's response

MoFPED models are themselves unrealistic, since, for instance, they have aspirational assumptions about revenue raising and inflation, rather than realistic ones.

The elasticity numbers are not based on the best estimates of actual elasticity, but are instead due to discretionary adjustments in order to change the overall numbers which affects the transparency of the forecasting process.

Conclusion

Reliability and credibility of the forecasts improves revenue and expenditure planning for the sectors, and facilitates debt management. It is, therefore, imperative that due regard is given to the reliability and credibility of the forecasts made. Failure to institute quality assurance measures, robust forecasting models and adequate skilled staff in modelling could compromise the reliability and credibility of the forecasts.

Recommendations

MoFPED should:

- Review its current forecasting models and employ econometric methods to make the forecasting more robust.
- Seek services of an independent evaluator, such as, the Economic Policy Research Centre, to review and give assurance on the forecasts produced.
- Concentrate its efforts on improving its forecasting of the key factors, particularly nominal GDP and import volumes, and ensure that it has the expertise to do so.
- Expand the current staff structure to bring in more expertise and manpower and put in consideration retention of modellers.

2.2.5 LEARNING FROM PREVIOUS REVENUE FORECASTS

A successful and robust forecasting process needs to allow for learning from past successes and problems.[19] Such learning requires:

- A regular process of review of the performance of previous forecasts, including analysis of the factors that influenced outturns.
- Quick correction of systematic errors.
- Improvement in performance over time.

19 National Audit Office, Forecasting in government to achieve value for money.

Overall, audit found that there was little or no systematic process for reviewing and learning from past revenue forecasts or assumptions. The MoFPED annual Revenue Performance Reports describe the gaps between targets and actual outturns in the last year, and provide some discussion of why these gaps occurred. But they do not assess whether the targets and forecasts were themselves reasonable, and provide varying data in different years. For instance, the 2010/11 report discussed how the ratio of revenue to GDP had changed, but this was not done in 2011/12 or 2012/13. There is also no process for assessing the performance of forecasts over time periods longer than a year.

MoFPED revenue forecasts estimate the changes in revenue that it expects to be caused by several factors, including GDP growth, inflation and effort by the URA. For instance, in 2013/14, MoFPED expects 30% of the increase in revenue to be due to GDP growth and 8% to be due to greater effort by the URA (Table 3). However, MoFPED does not assess after the forecast year whether this expectation was met. This makes it impossible for MoFPED to hold URA effectively to account for achieving increased revenue, or for MoFPED to calculate whether its targets were sufficiently demanding.

Table 3: Decomposition of revenue increase in 2013/14

	Item	Value (UGX, bn)	As % of new revenue
a	**Base**	**7,345**	
b	**Passive forecast,** of which factors:	**1,105**	**77%**
	1. GDP	434	30%
	2. Inflation	107	7%
	3. Exchange rate	6	0%
	4. Trade Volumes	448	31%
	5. Elasticities	-13	-1%
	6. New taxes	124	9%
c	**Desired efficiencies,** of which:	**330**	**23%**
	4.1. URA efficiencies	120	8%
	4.2. Surplus tax measures	210	15%
(b+c)	**Additional revenue forecast**	**1,435**	**100%**
(a+b+c)	**Total revenue forecast**	**8,780**	

Source: OAG Analysis

Where changes are being made to approaches to forecasting, there is little evidence that these changes are based on an assessment of previous issues. For instance, MoFPED and the Bank of Uganda have begun to overhaul their models for forecasting GDP and inflation, but they have not identified clearly the problems with their previous models.

Management Response

The tax revenue performance reports include reasons for the divergences.

Every day is a learning process. Through experience we understand well the strength and weaknesses of the model.

URA provides a monthly report to the press on revenue performance. The report explains reasons for the gaps.

Auditor's response

There is no system in place for learning from past errors and improving the model accordingly.

Conclusion

The lack of systematic learning may explain why forecast errors have persisted over time, and why there is little evidence of forecast performance improving.

Recommendations

MoFPED should:

- Institute a process of systematic annual review of revenue forecasts, alongside BoU and URA. This should include: published assessments of the reasons for errors; analysis of whether URA achieved its effort and efficiency targets; and identification of any longer-term trends in forecasting errors.
- Provide a clear rationale for any changes to its approach, based on learning from previous problems.
- Set targets for URA that is consistent with the outcomes of the forecasting model, to reduce interference with the forecasts. These targets could be set in real terms, to ensure that inflation surprises do not make revenue targets too easy to meet.

OVERALL AUDIT CONCLUSION

There has been tremendous improvement towards financing of the country's national budget using domestic revenue and overall revenue forecasting errors were quite low. However, to facilitate strong financial mangment and informed spending decisions, the process of revenue forecasting needs to be improved to make it more transparent, comprehensive and reliable. Drawing up formal rules that clearly spell out and guide the revenue forecasting process, expanding the forecasts to include local government revenues and all non-tax revenue and enhancing methodology and tools used for budget revenue forecasting would be a step in the right direction.

3

3.0 REGULATION AND MONITORING OF DRILLING WASTE MANAGEMENT IN THE ALBERTINE GRABEN

3.1 INTRODUCTION

3.1.1 MOTIVATION

The Albertine Graben is very rich in biodiversity and is also home to very sensitive ecosystems. This region is where all Uganda's recently discovered oil lies and is the most important eco region in Africa as it hosts the continent's most endemic vertebrate species. Two of the largest wildlife conservation areas which are also the most visited in Uganda, that is Murchison falls and Queen Elizabeth, are placed in the Graben which helped most towards the contribution of tourism revenue currently established at USD 1.7 billion to the country's economy. With the discovery of viable Oil and Gas reserves in the Albertine Graben, companies carrying out petroleum exploration activities generate drilling waste, wherefore the proper management of waste from the petroleum activities is of vital importance.

Poor waste disposal may lead to degradation of land and water resources, change in the ecosystem, leading to fish stress/kills. To date, drilling waste generated in the Albertine Graben is not being treated but is stored in designated Waste Consolidation Areas (WCAs).

Protection of the Albertine region has been a government priority to the magnitude that an additional UGX 3.0 billion has been given to the National Environmental Management Authority (NEMA) in FY 2013/14 to conduct the Environmental Impact Assessment for the Gas and Oil exploration and development in the Albertine region.

Waste generated in the Albertine Graben is expected to increase as government starts giving oil companies licenses for the development of petroleum fields. It is against this background that the Office of the Auditor General found it necessary to conduct an Environment Audit on the management of waste in the Albertine region to ascertain whether efforts are on course in this regard. The audit is expected to inform policy on waste management in the Albertine Graben.

3.1.2 DESCRIPTION OF THE AUDIT AREA GOVERNMENT RESPONSIBILITIES

NEMA has the responsibility of playing an oversight role in ensuring that petroleum exploration companies manage waste properly from the point of generation to final disposal.

It has a responsibility of putting in place appropriate legislation and guidelines; issue licenses, supervise and monitor the different activities in the Graben.

3.1.3 AUDIT OBJECTIVE

The audit objective was to assess the efforts of NEMA in securing effective and environmentally sound mechanisms geared towards handling drilling waste in the Albertine Region.

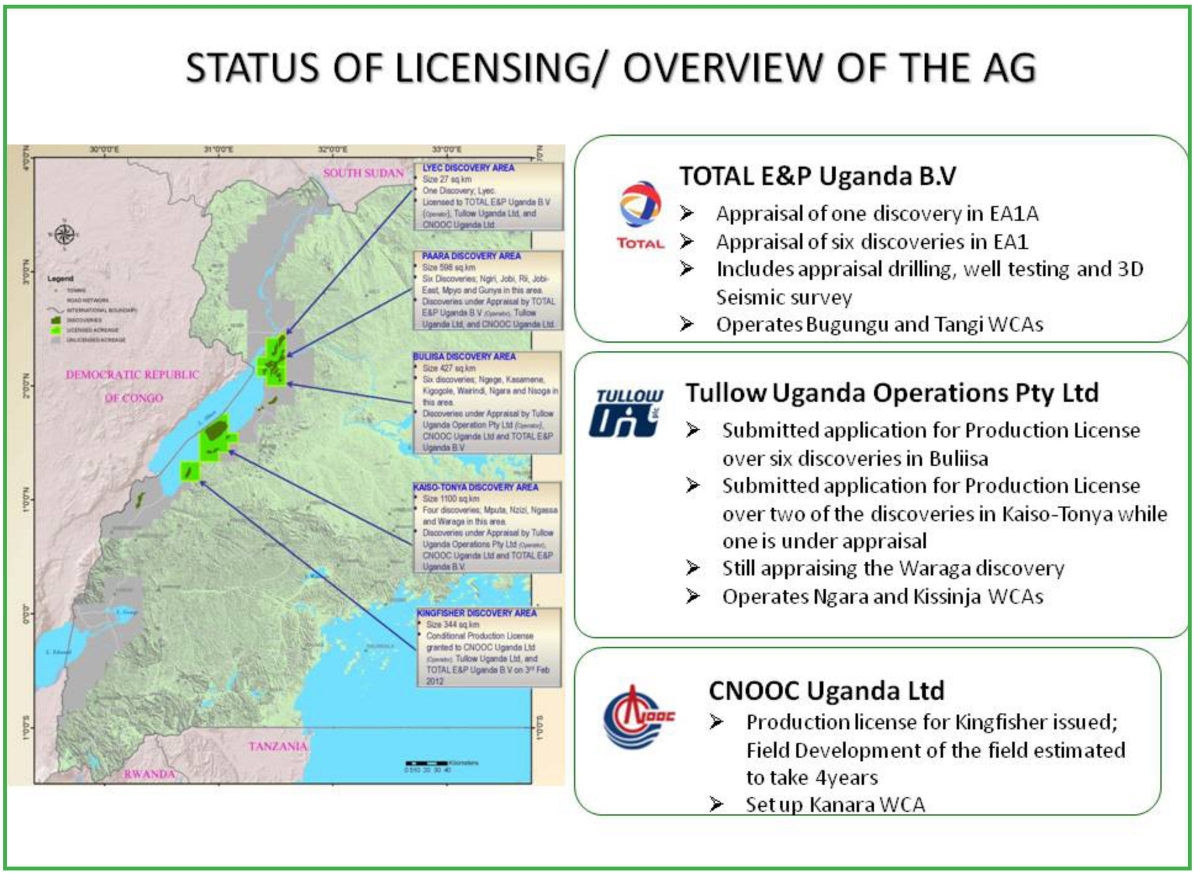
Audit Questions

1. To what degree are adequate regulations and guidelines in place to ensure proper handling of drilling waste?
2. To what extent has NEMA put in place an appropriate system for follow up and control of drilling waste?
3. To what degree are the current drilling waste management practices affecting environment and economy?

3.1.4 AUDIT SCOPE

The audit assessed the adequacy of NEMA's efforts to ensure that drilling waste in the Albertine Graben is handled in an environmentally sound and economic manner. Given the critical nature of oil exploration waste, and the grave environmental impacts of improperly managed waste, the audit covered the period from 2006 when oil exploration activities began in earnest, to June 2013, that is, Financial Years (FYs) 2006/07-2012/13. The audit was carried out within the Albertine Graben since this is the area in which oil exploration is on-going; it is also where all activities aimed at managing oil exploration waste have so far been confined as shown in figure 6 below.

Figure 6: Map showing Oil exploration blocks in the Abertine Graben



Source: Courtesy of PEPD

3.1.5 AUDIT METHODOLOGY

Sampling

Four (4) exploration sites were selected for visits for the purpose of interviews and observations: that is Ngassa - 2, Ngara - 1, Kasemene - 1, and Jobi East–6. Five (5) waste consolidation areas within the Albertine Graben were also visited during the audit to observe on-site waste management practices. The sites are Kisinja and Ngara;[20] Bugungu and Tangi;[21] and Kanara[22]. The sites are located in the districts of Hoima, Buliisa, Ntoroko, and Nebbi (Pakwach- including Murchison Falls National Park), all within the Albertine Graben.

Data collection methods

The following data collection methods were used:

Document Review

Documents were reviewed to gain an understanding of the major aspects of oil waste generation and management in the Albertine Graben; it was also done to establish the legal mandate, general operation, performance and challenges faced by the key players in the management of oil waste.

Interviews

The audit team conducted 14 interviews with officials from NEMA, Petroleum Exploration and Production Department (PEPD) and the Oil Exploration and Production (E&P) Companies to assess how NEMA, other environmental pillar member authorities, and prospecting companies were ensuring that waste is properly managed, as well as to corroborate audit evidence obtained from other data collection methods.

Observation/ Field inspections;

Selected waste consolidation areas, active rig sites and camps were visited to observe drilling waste generation, handling and management activities; at each site, photographic evidence of the status quo was obtained.

20 Operated by Tullow
21 Operated by Total E&P
22 Operated by CNOOC

3.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

3.2.1 ADEQUACY OF WASTE MANAGEMENT REGULATIONS AND GUIDELINES

Waste Management Regulations

The National Environment Act, Cap.153, Section 107, provides for the Minister to make regulations generally for better carrying out of the provisions and purposes of the said Act. NEMA is supposed to issue relevant waste management regulations to ensure this. Adequate regulations are a pre-requisite for proper management of waste from the oil and gas activities.

Audit noted through interviews with NEMA's management that there existed waste management regulations[23] but that these regulations did not cater for oil and gas activities (drilling waste). A review of NEMA's annual work plans and budgets for 2008/09[24], 2009/10[25], and 2010/11[26] revealed that NEMA had planned to spend UGX 432,500,000 on Legislative review as indicated in table 4 below. However, a review of its expenditures for the same period revealed that funding had not been released for this activity and that by the time of audit (March 2014), the legislative review process had not been completed.

23 The National Environment (Waste Management) Regulations, Statutory Instrument No. 153-2
24 The annual work plan and budgets estimates for 2008/09 page 10
25 The annual work plan and budgets estimates for 2008/09 page 22
26 The annual work plan and budgets estimates for 2008/09 page 14

Table 4: Planned expenditure on Legislative review to incorporate Oil and Gas issues

Year	Activity	Amount (UGX)
2008/09	Development of regulations on air quality and vibrations for oil/gas sector and Review of other policies to incorporate Oil and Gas	153,500,000
2009/10	Legislative review to incorporate Oil and Gas issues	123,000,000
2010/11	Legislative review to incorporate Oil and Gas issues	-
2011/12	Development of regulations on air quality and Review of other regulations to integrate oil/gas related environmental issues (Int. Consultancy)	156,000,000

Source: OAG Analysis of NEMA's budgets and work plans for its legislative review

The NEMA officials interviewed attributed the delay to the freezing of funding by the Norwegian Government (Oil for Development programme) in FY 2012/13, which had been sponsoring the review process. They further explained that upon resumption of funding, the consultants needed to carry out extensive consultations.

Audit, however, attributed the delay to complete the review of the legislation to incorporate the oil and gas issues to NEMA's over reliance on donor funding. These donor funds however, normally come conditioned for a specific purpose and activity.[27] Furthermore, a review of NEMA's budgets for the same period had no evidence that alternative funding had been sought from Government of Uganda. As a result, the review process that commenced over five years ago (started in Financial Year 2008/09) was yet to deliver any tangible output by the time of audit (March 2014).

The delay to finalize review of the regulations and give comprehensive guidance on how to properly manage drilling waste resulted in a decision by NEMA that all drilling waste should in the meantime, be consolidated at designated sites, until a satisfactory solution is found.

Guidelines for handling drilling waste in the Graben

According to NEMA's Strategic plan, in FY 2009/10, NEMA was supposed to develop guidelines to ensure sustainable exploitation of the emergent oil resources in Uganda and mineral reserves country-wide, without degrading human health and the natural environment.[28]

Through document review, Audit noted that much as NEMA issued Operational Waste Management Guidelines for Oil and Gas operations to guide oil companies on most appropriate waste disposal methods, the issued guidelines are silent about how the drilling waste currently generated in the Albertine Graben should be transported, stored and/ or treated.

Audit noted, through interviews with NEMA and Oil company officials, that NEMA had changed its position on some of the provisions in the issued guidelines in as far as the generated waste was concerned as illustrated in table 5 below.

27 Both parties' interests might vary at a given time

28 NEMA Strategic Plan 2009/10-2013/14; page 118

Table 5: Waste management Guidance in Operational guidelines vs. NEMA's current guidance

S/N	Guidance as per Waste Management guidelines	NEMA's current position (according to interviews)
1.	**On current consolidated wastes:** "The wastes should be stabilized and buried in lined pits at the sites of the current storage."[29] **On Future Wastes (Exploration and production wastes)** "If the wastes have pollutants that are within the acceptable standards, the waste shall be buried on site in lined pits otherwise, the waste shall be transported to the central waste treatment plant."[30]	All waste will be transported from current WCAs to designated waste treatment (land filling) sites.
2.	**On handling of produced water:** "For production waste, especially produced water shall be re-injected back into the underground formations."[31]	Waste re-injection is not permissible.

Source: Review of Operational Waste Management Guidelines for oil and gas operations and Interviews with NEMA and Oil company staff.

In addition, the Operational Waste Management Guidelines do not provide for the management of liquid waste arising from drilling activities from generation to disposal. They also do not guide on handling of slop oil[32].

NEMA attributed its shift in position from the earlier issued guidelines to the fact that new forms of evidence keep coming up as new tests are conducted to ascertain the chemical composition of the generated waste and that this necessitates appropriate measures to deal with the specifics of wastes especially now that the whole concept of oil and gas was a new area to all Ugandan entities, including themselves and that every step was a learning process for them, which necessitated them to change previously held positions in order to better preserve the highly sensitive Albertine Graben ecosystem as and when new evidence came to light.

However, through interviews with NEMA and Oil Companies, Audit established that the inadequacies in the operational waste management guidelines for oil and gas operations mainly came about because NEMA did not adequately involve other stakeholders in the formulation process.

For instance, according to the NEMA officials interviewed, the guidance to bury waste on site (refer to Table 5 above) was opposed by the Uganda Wildlife Authority (UWA) since some of the provisions entailed burying waste at the same point of generation and this meant within Protected Areas (National Parks) where some exploration activities were on-going. This, UWA argued, would endanger burrowing animals which can dig up the waste.

On the other hand, oil companies were reluctant to implement guidelines on handling the generated waste considering the past experience at Purongo.[33] All companies interviewed for this audit (all that are exploring in the Graben) felt that the issued guidelines were too generic/ high-level, and this made it difficult for them to implement hence, NEMA's subsequent decision to withdraw them.

NEMA's delay to come up with adequate environmental regulations and guidelines has had both environmental and economic effects.

29 Interim Waste Management Guidelines for Oil and Gas Operations. Section 4(i): Recommendations for proper E&P waste management.

30 Op. cit; Section 4(ii)(e)

31 Op. cit. Section 4(ii)(f)

32 Occurs during the drilling and operation for production wells for Oil and Gas

33 The Purongo incident involved a case in which one of the Oil companies buried waste, following guidance given by NEMA. However, the surrounding communities protested the action, resulting in a lot of negative press for the company.

Management Response:

- Preparation of the interim waste management guidelines was consultative involving stakeholders, sector ministries and oil companies.
- The review of the waste management regulations and guidelines incorporating oil and gas issues is ongoing and supposed to be completed by June 2014 and adopted by December 2014. In addition, the National Environment Act (NEA) and the National Environment Management Policy (NEMP) are also under review and are expected to be completed by December, 2014.
- The current process for review of the above is highly consultative.

Audit Response

NEMA did not provide any evidence that stakeholders (sector ministries and oil companies) were consulted during formulation of the Operational Waste Management Guidelines for oil and gas operations.

Conclusion

NEMA has not completed the review of environment legislation in time, and did not consult relevant stakeholders while formulating the Operational Waste Management Guidelines for oil and gas operations. Thus proper and efficient management of waste from the oil and gas activities have been hampered.

Recommendations

- NEMA should prioritize and expedite completion of the review of Uganda's legislation to incorporate oil and gas issues to promote better management of drilling waste.
- NEMA should consider adding review of the Operational Waste Management Guidelines for oil and gas operations to the on-going legislative review.
- In future, NEMA should involve stakeholders in formulation of any policies, legislation or guidelines, and seek their input.

3.2.2 MONITORING AND COMPLIANCE ENFORCEMENT

According to Section 77[34] of the NEMA Act, any person who carries out any activity which has or is likely to have a significant impact on the environment shall keep records relating to the amount of waste and by-products generated by the activity; the extent of his or her activities, indicating the economic value of the activity on the area covered, expressed in the monetary value of the product per year; the observable effects of the activity on the environment; and how far, in the opinion of that person, the provisions of this Act have been complied with.

According to the Strategic Environmental Assessment[35] for Oil and Gas activities in the Albertine Graben, Oil Exploration and Production Companies are required to carry out self-monitoring and submit their data to the various environmental agencies on a quarterly basis.

Oil Exploration and Production (E&P) companies

Audit observed that the Oil companies did not prepare and submit self-monitoring reports against set parameters as per the requirement. Self-monitoring data would have provided a basis for verification of compliance with legal requirements and enforcement by the responsible government agencies, and for calculation of environmental or administrative charges.

For instance, Tullow (TUOP) was expected to have submitted twelve (12) self-monitoring reports for the last

34 Record keeping

35 TEP and CNOOC began operations in February 2012

three years starting 2011, 2012 and 2013 alone[36], while Total (TEP) and CNOOC were each expected to have submitted six (6) self-monitoring reports[37] in the same period.

However, a review of their self-monitoring reports for the same period revealed that out of the expected self-monitoring reports, TUOP had submitted 7 reports (58%), TEP 3 reports (50%) and CNOOC none (0%) respectively as indicated in Table 6 below.

Table 6: Submissions of self-monitoring reports by E & P companies

COMPANY	FY												TOTAL REPORTS SUBMITTED
	2010/11				2011/12				2012/13				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
TUOP	×	×	×	√	×	√	√	√	√	√	√	×	58%
TEP	N/A	N/A	N/A	N/A	N/A	N/A	×	×	√	√	√	×	50%
CNOOC	N/A	N/A	N/A	N/A	N/A	N/A	×	×	×	×	×	×	0%

Source: OAG analysis of self-monitoring reports submitted to NEMA

Audit further noted that even for the submitted reports, NEMA had not issued standardized formats against which the Oil Exploration and production companies would report and as a result, there was no uniformity on issues reported on quarterly by the E&P companies. In the reports availed during the audit, Total(TEP) did not report on quantities of drilling waste generated per quarter while important issues like environmental incidences were missing in some reports.

Audit attributed the inconsistencies in submitting self-monitoring reports by Oil exploration and production companies to NEMA's reluctance to compel the exploration and production companies to comply with the provisions of the law. For instance, CNOOC that had been in operation for over a year (since Feb. 2012) had not submitted any self-monitoring report while TEP and TUOP had only submitted 50% and 58% respectively of the expected submissions without any sanctions imposed on them by NEMA.

In absence of self-monitoring reports from the Oil exploration and Production companies, it might become difficult for NEMA to prioritize allocation of its available resources to ensure that inspections are focused on areas where they are most needed- for instance where there is observed/ consistent non-compliance.

In addition, self-monitoring data would have provided NEMA with a basis to verify the extent to which the companies operating in the Graben are complying with legal requirements and best environmental practices, and for calculation of environmental or administrative charges.

Management Response:

Tullow Uganda has been in operation over the period under review and has routinely submitted annual reports; while TOTAL E&P and CNOOC became operators in 2012. Since then Total has submitted the mandatory report of 2013. However all the companies have been providing interim reports as and when requested.

36 TUOP began operations way before 2011

37 TEP and CNOOC began operations in February 2012

Audit Response

Given the sensitivity of the Albertine Graben, the Oil E&P Companies should have submitted not only annual reports but also quarterly ones as required.

Waste-transportation firms

The waste management regulations and conditions of approval[38] require waste transportation firms to maintain proper records of the quantity and quality of the waste handled and report bi-annually to NEMA on the same. This was supposed to be ensured by NEMA.

Audit noted through document review that licensed waste transportation firms did not regularly submit bi-annual reports on the quality and quantity of waste to NEMA as required. This, if complied with, would help NEMA to keep track of the waste generated in the Graben, its final destination (and not offsite) in order to ensure that the risk of pollution is minimized.

For instance, a review of documents relating to Epsilon and Strategic Logistics Limited, licensed to transport waste, revealed inconsistencies in reporting as required as illustrated in Table 7 below.

Table 7: Expected reports for submission to NEMA vs. actual submitted

S/N	COMPANY	DATE LICENCE WAS ISSUED	EXPECTED REPORTING DATES	ACTUAL SUBMITTED	DATE OF SUBMISSION
1.	EPSILON	7th January, 2007	7th July, 2007	X	
			7th January, 2008	X	
		19th February, 2010	19th July, 2010	X	
			19th February, 2011	X	
		20th June, 2011	20th December, 2011	X	
			20th June 2012	√	26th September, 2013
		3rd December, 2012	3rd June 2013	X	
			3rd December, 2013	X	
2.	Strategic Logistics Limited (SLL)	8th December, 2011	8th June, 2012	X	
			8th December, 2012	X	
		Total submitted		1	
		%		10%	

Source: Analysis of NEMA Transportation Licenses and Bi-annual report submitted to NEMA

From the table above, EPSILON was expected to have submitted eight (8) reports to NEMA by the time of audit.

38 For the individual waste management Licenses

However, it had only submitted one report.[39] On the other hand, there was no record of submission by Strategic Logistics Limited for the period of their license (8th Dec. 2011 to 8th Dec. 2012). Similarly, Audit could not readily verify whether the company's license had been renewed for the period 2013 by the time of audit (March 2014). This represents a 90% gap in the frequency of submission of bi-annual reports by waste-handling firms.

Audit attributed the failure by waste transportation firms to submit their bi-annual reports on the quantity and quality of waste handled to their reluctance to comply with this requirement. Despite this, NEMA did not impose any sanctions or penalties on the said companies in spite of their repeated non-compliance.

In the absence of these reports, NEMA might not be aware of the actual waste transported from the generation points to the consolidation areas.

If NEMA cannot account for all the waste generated and transported in the Graben, it becomes very difficult to rule out dumping of waste. This may have negative consequences on the sensitive eco system of the Graben if the waste generated has undesirable chemical constituents, such as heavy metals. This is a real danger given that Laboratory analysis of the waste transported by EPSILON showed that they contained abnormally high concentrations of Barium, Chromium, and Lead, among others

Management Response

NEMA will follow up the Companies to make sure that the biannual reports are submitted. In respect to tracking of waste generated in the Albertine Graben, the generators of waste and the transporters use waste manifests that are on record (documented and kept on files which are reviewed by inspectors) in line with S.24 (1) of the waste management regulations. Herein the quantity of waste is tracked and documented at source, during transportation, and at destination – which records the inspectors of NEMA routinely study upon visit to the concerned sites.

Audit Response

Audit notes that whereas there were some manifests at the different generation points (exploration sites) and Waste Consolidation Areas visited, NEMA's inspection reports contained no evidence that these manifests had been reviewed during inspection. In the absence of bi-annual reports submitted by Waste transportation companies and without examination of the waste manifests on site, NEMA cannot account for all the waste generated and transported in the Graben.

Inspections

There are three levels of inspections: Inspections by District Environment Officers (DEOs), Multi-Sectoral inspection teams and by NEMA.

District Environment Officers (DEOs)

Audit noted, through interviews with District Environmental Officers of Bulisa and Hoima, that inspections of the waste consolidation areas within their areas of jurisdiction (within their districts) were not being carried out.

Audit further established, through interviews with NEMA officials, that routine monitoring of activities in the Albertine Graben was the responsibility of the DEOs and that these had been trained by NEMA, especially on aspects of monitoring and inspection of oil and gas activities. Similarly, the DEOs interviewed specified that due to funding constraints and limited equipment, inspections were only carried out when NEMA or the Oil companies involved and/or facilitated them.

However, a review of the work plans for Hoima and Bulisa's District Environment Offices for the period 2011/2012 and 2012/13 revealed that the Districts Environment Officers had not planned for inspections and neither did their planning budgets reflect any provisions for funding for the said activities in the Albertine Graben.

Management Response

The District Environment Officers have not been adequately equipped and financed by their respective local governments as provided by law. NEMA has and will continue to work with Local Governments to ensure that budgetary provisions for environmental management are

39 Relating to wastes handled during the period January to June 2013; Received by NEMA on 25th September, 2013.

scaled up. However, the best options would be to introduce conditional grants for the District Environment Offices, or NEMA to establish regional offices.

Multi-stakeholder Inspections

Audit noted through interviews and document review that the multi-sectoral inspection team[40] does not carry out inspections as regularly as required. On average, the multi-stakeholder inspections conducted constituted 18.75% of the expected inspections as indicated in table 8 below

Table 8: Documented Multi-stakeholder inspections

Financial Year	Required number of annual inspections	Actual number of inspections	Performance (%)
2009/10	4	2	50
2010/11	4	1	25
2011/12	4	0	0
2012/13	4	0	0
Average			18.75

Source: OAG Analysis of NEMA's multi-sectoral inspection reports

Audit attributed the failure by the Multi-stakeholder inspections team to conduct the required inspections to NEMA's failure to prioritize the inspections. For instance, in the period under review, only three (3) joint inspections were carried out, out of the expected total of sixteen (16), over the last four years alone, as indicated in table 8 above. It was also noted that the inspections had gradually reduced from two in 2009/10 to no inspections at all in 2012/13.

As a result, the bulk of inspections have been left to NEMA to bear and this deprives the Albertine Graben the benefit of knowledge that would be shared by experts in specialized fields of ecosystem management, such as Wildlife (UWA), Wetland Management (Wetlands Division of the Ministry of Water and Environment), Water quality (DWRM) and Aquatic eco-systems (Fisheries Department), among others.

Management Response

The inspection tiers and protocol referred to are an administrative measure to enhance information sharing, institutional cooperation and compliance to various sectoral environmental regulatory requirements. This administrative initiative does not however overrule the statutory requirements as clearly stated in S.6(3) of the NEA. This was instituted to operate on a quarterly basis subject to availability of funds.

Audit Response

Audit maintains that the activity was not prioritized by NEMA since no evidence in the form of annual or quarterly reports was submitted to Audit as proof that the quarterly inspections were routinely budgeted for.

Basis and frequency of inspections by NEMA's Inspection team

NEMA is required under law[41] to monitor and inspect the operation of any industry, project or activity. According to NEMA's Compliance and enforcement strategy, the Authority is required to undertake inspections of entities[42] to monitor their environment management practices. This strategy categorizes projects based on associated risks that is high-risk (Category 1), medium-risk (Category 2) or low-risk (Category 3).

40 PEPD, NEMA, UWA, NFA, MWE/DWRM, MWE/DEA, the Fisheries Department

41 Section 23(1) (b) and (2) of the NEMA Act

42 Including oil and exploration companies operating in the Albertine Graben

Projects located in a Protected Area/ Sensitive Ecosystem or involving Waste Management and Infrastructure are considered high-risk and should be inspected by NEMA's inspection team at least 3 times a year.

Audit noted that the waste management activity within the sensitive Albertine Graben ecosystem had not been reported on and/or inspected by NEMA as per the required frequency. Through review of monitoring reports for the period 2010/11, 2011/12 and 2012/13, Audit noted that NEMA had only carried out one (1) inspection on all sites within the Albertine Graben in 2010/11 and 2011/12. However, its inspections had increased to four (4) in the Financial Year 2012/13, giving an average performance of 66.7% inspections as illustrated in table 9 below.

Table 9: Showing inspections conducted by NEMA staff

FY	Required number of annual inspections	Actual number of inspections	Performance (%)
2010/11	3	1	33.3%
2011/12	3	1	33.3%
2012/13	3	4	133.33%
Average			66.7%

Source: Review of Inspection reports submitted for audit

Similarly, through interviews with NEMA officials, they acknowledged the need to even carry out more inspections than those stipulated in the current strategy because the current inspections, in their view, were not sufficient, given the sensitive nature of oil and gas exploration activities. The Authority would have preferred to station Environmental Monitoring Officers (Oil and Gas) permanently in the Albertine Graben.

Audit attributed the good performance in 2012/13 to the recruitment of two extra Environmental Monitoring Officers, specifically dedicated to Oil and Gas issues. Conversely, the failure to match the number of inspections in the years 2010/11 and 2011/12 was attributed to a limited number of staff allocated to inspections of the Graben then.

As a result of complying with the required inspections, NEMA was able to report on the activities of Oil companies as well as advise Oil companies on how the waste in the Graben should be dealt with in the interim as long lasting solutions on how to treat and dispose of the waste are explored.

However, NEMA's two Environmental Monitoring Officers for Oil and Gas cannot adequately monitor activities on the ground to expectation of NEMA's management, considering NEMA has several other activities related to Oil and Gas, which require the input of these officers, such as reviewing EIAs, Environmental Audit reports and other compliance reports submitted by oil companies; attending conferences and workshops pertaining to Oil and Gas, and this makes it impossible to station them permanently in the field[43].

Conclusion

Monitoring and supervision of drilling waste management in the Albertine Graben has not been adequately done by the licensed companies, DEOs, NEMA and the multi-stakeholder team. As a result, significant environmental impacts of the current practices may go undetected.

Recommendations

- NEMA should ensure that the Oil E&P companies carry out Self-Monitoring and submit reports to it as required and, where necessary, use available sanctions in the Law to compel their compliance.

43 Interview with Mr. WaiswaAyazika, Director, Environmental Monitoring and Compliance, NEMA

- NEMA should prioritize the multi-sectoral inspections in order to ensure that the knowledge from the various experts in specialised fields of ecosystem management is harnessed.
- NEMA should expedite its proposal of permanently having its Environment Monitoring staff stationed in the Albertine Graben in order to keep pace with activities of oil and gas.
- Government should consider introducing conditional grants for the District Environment Offices to facilitate environmental monitoring. In addition, MoFPED should consider approving/ financing the recommendation by NEMA's Institutional Review Report to employ more environmental monitoring officers (oil and gas) and establish regional offices for better environmental monitoring, especially in the oil and gas sector.

3.2.3 COMPLIANCE AND INDEPENDENT VERIFICATION/ METHODOLOGY FOR INSPECTIONS

NEMA is required[44] to conduct inspections of approved facilities to ascertain compliance or noncompliance with Conditions of Approval independent of information supplied by the developer. This would help NEMA to verify the accuracy of the reports submitted by the developer and support permit development re-issuance or revision.

During a Compliance Sampling Inspection, the Authority will: Collect wastewater samples, which might also include collecting 'split samples' with the operator to compare sample results and document a developer's laboratory techniques. Sample collection and laboratory testing are a vital tool in reporting on and/ or monitoring compliance with proper waste management practices.

Audit noted that NEMA was not carrying out independent tests of solid and liquid waste samples generated from the drilling activities to corroborate the results they received from the self -monitoring tests carried out by the oil companies. These tests range from soil characterization, water quality tests, quantity and chemical composition of drilling waste/mud and chemicals being used in the drilling activity, among others.

A review of NEMA's inspection process did not reveal any procedures on the frequency, timing and details of the verifications required for sample collection and laboratory testing. For instance, Audit noted that NEMA had only conducted two verification tests in 2010 and 2012 in the whole period of active Oil exploration in the Graben (since 2006).

NEMA Management explained that independent verification of the test results submitted by the oil companies was primarily the responsibility of relevant lead agencies such as Directorate of Water Resources Management (DWRM) for water quality and PEPD for chemicals used. These would then be required to submit reports on the verification to NEMA.

Audit attributed NEMA's inability to conduct independent verification tests to failure by the Authority to prioritize the activity. The Authority did not budget for independent verification tests and neither had it adequately equipped its laboratory to carry out these tests.

A review of NEMA's budgets for the period 2010/11, 2011/12 and 2012/13 revealed that much as NEMA budgeted and equipped its existing laboratory with tools and consumables for its routine activities, it lacked a budget line item for key equipment, such as: the Air quality testing equipment, Atomic Absorption Spectrophotometer which could have been used for testing heavy metals in the waste being generated.

Conclusion

NEMA did not conduct adequate verification of the information provided by the oil companies. As a result, it might be very difficult for NEMA to provide assurance that the current environment management practices have not adversely affected the surrounding environment.

Management Response

NEMA takes note and shall ensure that;

- Environmental Pillar institutions carry out tests on activities for which they are responsible

44 NEMA's National Compliance Monitoring and Enforcement Strategy, 2008,Page 23

- Independent laboratories within or outside Uganda are contracted for verification of results as was done in 2012.
- Oil companies carry out analysis on routine basis on waste they generate.
- It continues to allocate funds for basic analysis at its laboratory.

Recommendations

- NEMA should routinely carry out laboratory tests to ensure that it keeps track of the effect of oil exploration activities on the environment.
- NEMA should consider carrying out routine verification of test results from the self-monitoring reports submitted by the licensed entities operating in the Graben.

3.2.4 COMMUNICATION OF INSPECTION FINDINGS AND SANCTIONS

According to NEMA's National Compliance Monitoring and Enforcement Strategy, 2008, the Authority, following an inspection, should prepare an Inspection Report to document a developer's[45] compliance and non-compliance with Conditions of Approval. The final Inspection Report should be transmitted to the developer within 10 working days after the inspection or within 20 working days after the inspection if compliance samples were collected to allow time to process the samples and analyze the results. The Inspection Report should clearly note good practice, non-compliance identified, the relevant regulation or statute violated, actions the developer must undertake, and action required to correct problems.

Audit noted that NEMA was not regularly communicating their inspection findings to the Oil companies after field inspection activities. Interviews conducted with NEMA's Environmental Monitoring officers for oil and gas revealed that findings of their inspections are usually communicated through debriefing of the inspected entities for non-serious issues, through written communication within 2-3 days where they find serious incidences of non-compliance, and within 2 weeks if there are no serious issues. However, only one reference to a de-briefing session was availed to audit. In addition, only two (2) letters communicating inspection findings to Oil E&P Companies were availed to Audit for the period under review, as illustrated in table 10 below.

Table 10: Communication of NEMA's Inspection findings

Inspection period	Company operating in inspected area				Total no. of expected communication letters	Actual number
	TUOP	TEP	CNOOC	Dominion		
October –Dec 2010	√	×	×		1	0
October –Dec 2011	√	N/A	N/A	√	2	0
July-September 2012 √ √			×		2	0
October-Dec 2012	√	√	√		3	0
January –March 2013	√	√	√		3	1
April-June 2013	√	√	√		3	1

Source: OAG Analysis of NEMA inspection reports and communications to Oil companies

Audit attributed the inability of NEMA to frequently communicate their inspection findings to the fact that NEMA does not regard it as a requirement to be strictly followed.

<u>In the absence of</u> adequate feedback, companies could not identify areas of improvement or good practices to maintain.

45 For purposes of this Audit, "developer" refers to Oil and Gas companies operating in the Albertine Graben

They also could not ascertain whether the management of their waste was in line with the leading waste management practices.

Management Response

Inspection findings are routinely communicated to the regulated community (not only the Oil and Gas companies) through official letters either recognizing good performance or highlighting areas of non-compliance that should be addressed. These communications are available for verification.

Audit Response

Only two (2) letters from NEMA to the Oil E&P Companies communicating inspection findings were provided for verification.

Conclusion

NEMA is not regularly communicating its inspection findings to the exploration companies thus making it difficult for them to gauge their performance and track areas of improvement.

Recommendation

NEMA should routinely report key findings to companies after inspections. This will improve NEMA's capability to track compliance to set standards by oil companies.

3.2.5 ENVIRONMENTAL AND ECONOMIC EFFECTS OF THE CURRENT WASTE MANAGEMENT PRACTICES

Policy Principles 2 and 4 respectively of the National Oil and Gas Policy for Uganda require efficient resource management and protection of the environment and biodiversity.

Treatment and Disposal of waste

According to best practice, drilling waste should be treated and disposed of as soon as possible after generation, in accordance with the prescribed guidelines issued by NEMA. This treatment can be done at the drilling site (on-site), or the waste can be transported from the generation point to a designated waste treatment and disposal facility (off-site).

Audit noted that instead of waste being treated and disposed off after generation as required, it was being transported to waste consolidation areas (WCAs)[46] where it is being held pending treatment. At the time of audit, Uganda's stockpiles for the period kept by TUOP (Tullow) and TEP (Total) for solid and liquid drilling waste stood at 39,625 tons and 8227 cubic meters respectively as broken down in table 11 below.

Table 11: Quantity of solid and liquid drilling wastes generated to-date

Company	Solid Drilling Waste (Tonnes)	Liquid Drilling Waste (Cubic Metres)
TUOP	29,565	7,579
TEP	10,060	648
CNOOC	Not availed	Not availed
Total	**39,625**	**8,227**

Source: Drilling waste data from TUOP and TEP

According to interviews held with NEMA, the decision to consolidate waste was made because no waste handling company had come up with a proposal to treat the waste. Similarly, NEMA deemed the Oil

46 Currently, the WCAs are located at Ngara, Bugungu, Tangi, Kisinja and Kanara.

companies' waste treatment and disposal options unsatisfactory. NEMA explained that the Oil companies had proposed land farming and land spreading of waste as a disposal method following treatment, but NEMA considered that this would expose people, plants and animal species to components in the waste with the potential for bioaccumulation[47], resulting in health risks.

Audit attributed NEMA's delay to make a decision on how the current waste being stored should be disposed of to the inadequacy of the existing waste regulations and guidelines that did not cater specifically for Oil and Gas issues at the time of audit. For instance, through documentary reviews, audit noted that whereas, NEMA had licensed three companies to treat the waste generated and being stored in the Graben, by the time of audit, none of these firms had been procured by the Oil exploration companies to help in the waste treatment. This is because the Oil companies felt that even though they went ahead to procure the services of these companies, without specific guidelines from NEMA or adequate waste treatment plant in the country, disposal would still be a challenge.

The current waste management methods which, use waste consolidation areas (WCAs) to hold drilling waste results in double-handling of waste; since this same waste will eventually have to be removed from the current WCAs to the final treatment and disposal areas. The environmental and economic effects of the current waste management practices are explained below:

Environmental effects

The current practices are likely to expose the Albertine Graben to potential environmental risks since a larger area of land in this sensitive ecosystem is cleared, dug up and compressed as a method of handling the waste in the short run. However it would be better if waste was treated and disposed of at once. Furthermore, continued consolidation creates a new risk-centre that could result in environmental degradation if waste is not properly managed at the WCAs.

For instance, field inspections by Audit revealed that at Bugungu Waste Consolidation site, solid drilling waste had been piled up above the ground level, and it was not properly tucked away (see Picture 1 below). This presents a risk that some of the waste will be washed by rainwater into the surrounding areas, resulting in potential contamination of soil and/or change in the soil characteristics.

Picture 1: Showing improperly covered waste at Bugungu WCA

OAG Photo: Picture taken at Bugungu on 27th/Aug/2013 at 4:24 pm

47 Refers to gradual concentration/ accumulation of a substance in the tissues of living things (plant or animal) due to frequent exposure. Sometimes, this may go on until it reaches harmful concentrations.

Picture 2: Showing a properly covered Pit at Kisinja WCA

OAG Photo: Picture taken at Kisinja on 26th/Aug/2013 at 4:19 pm

At Ngara WCA, one of the solid waste holding pits was left uncovered and some rainwater had collected in it. During field visits, birds were seen drinking the water that had collected in the open pit, as shown in Picture 3 below. In the event that the drilling waste in this pit contains hazardous constituents, these could be dissolved into the water, and harm the birds that drink from this pit.

Picture 3: Showing a bird drinking from an open solid waste pit at Ngara WCA

OAG Photo: Picture taken at Ngara WCA on 06/Dec/2013 at 1:59 pm

Management Response

NEMA has licenced four Companies to treat waste that is generated by the three oil companies. The licensed companies are: EnviroServe Uganda Ltd, SLL Uganda Ltd, Mc Allister and White Nile Consult. However, none of these companies have been engaged by the oil companies. NEMA is going to follow this up with the Oil companies and the Ministry of Energy and Mineral Development.

The current practice which provides for consolidation of waste in one well engineered location to hold all the drilling waste in one smaller, designed location was the best option to minimize pollution and environmental risks. Besides, the Bugungu Waste Consolidation Area (WCA) was found to be non-compliant, and its licence was not renewed.

Economic/ financial effects

The current waste management practices create a double cost in terms of time, labor and money in the handling of this waste. This has already cost government significant sums of money, since waste management is part of the recoverable expenditures/ costs as per Uganda's Production Sharing Agreements (PSAs).

From 2010 to 2013 alone, the total expenditure on drilling waste management activities by Oil and production companies amounted to UGX 26.263 billion as detailed in Table 12 below.

Table 12: Expenditure on drilling waste management (2010-2013)

Year	EXPENDITURE (USD)				TOTAL IN UGX* (Billions)
	TUOP	TEP	CNOOC	TOTAL	
2010	746,228	0	0	746,228	1.866
2011	281,766	0	0	281,766	0.704
2012	1,724,548	1,006,674	1,349,446	4,080,668	10.202
2013	1,678,159	3,718,270	0	5,396,429	13.491
TOTAL	**4,430,701**	**4,724,944**	**1,349,446**	**10,505,091**	**26.263**

***Exchange rate: 1 USD = 2500 UGX**

Source: OAG Analysis of waste management figures from Oil Companies

This cost is set to increase once Uganda enters into the production phase, since the waste generated will increase significantly. As exploration and production companies enter into the production phase, securing new sites will be difficult given that: land in the Albertine Graben is communally owned; the cost of acquisition is expected to be hiked; and the surrounding communities believe that exploration waste is highly toxic.

In addition, the storage of waste near national parks can be considered as a nuisance and reduce tourism in the area, thereby reducing revenue from this industry.

Management Response

The Authority concurs with the concern raised on this expenditure and plans to follow up the issue with Ministry of Energy and Mineral Development who are responsible for costs incurred by the Companies.

Audit Response

Audit notes that NEMA is not involved in assessing the expenditure proposals of Oil E&P Companies to give technical input regarding various options for proposed environment management interventions vis-à-vis their financial implications. As a result, the Authority cannot provide assurance that the waste management options being used now are the most cost-effective.

Conclusion

The current waste management practices have exposed a greater area of the Albertine Graben ecosystem to potential environmental risks. In addition, the double handling involved implies that the Government of Uganda will have to spend twice on waste management that is, on consolidation, and eventual treatment and disposal. This would have been avoided if the final disposal method had been agreed upon earlier.

Recommendations

- NEMA should expedite review of environmental legislation to incorporate management of waste from drilling activities.
- NEMA should as far as possible engage the Oil companies to address their concerns and enable treatment and disposal of waste by the licenced companies.
- NEMA should liaise with MEMD and PEPD to ensure that it is involved in assessing waste management expenditure proposals/scenarios submitted by the oil E&P companies.

OVERALL AUDIT CONCLUSION

The audit on monitoring and regulation of drilling waste management in the Albertine Graben established that NEMA has made positive strides in ensuring effective and sustainable management of drilling waste in the Albertine Graben. However, existing weaknesses in the regulatory framework for waste management and capacity gaps in supervision and monitoring by NEMA need to be addressed to ensure proper management of drilling waste in the Graben. In addition, ongoing baseline survey of the Albertine Graben and the strategic impact assessment under consideration by the sector should be finalized to enable implementation of the proposed mitigation measures.

4

4.0 GENDER MAINSTREAMING IN THE WATER SUB SECTOR

4.1 INTRODUCTION

4.1.1 BACKGROUND

Gender Mainstreaming is a government framework for addressing gender imbalances. It is a requirement that all government entities (including the Ministry of Water Environment) incorporate gender in all their activities. In the Ministry of Water and Environment (MWE), the Water Sector Liaison Division (WSLD) is charged with coordinating gender mainstreaming across all the Ministry's directorates during policy formulation, planning, budgeting, implementation, monitoring and follow-up stages. The Ministry also has regional Technical Support Units (TSUs) which provide gender mainstreaming support at district level.

4.1.2 MOTIVATION

According to the Uganda Bureau of Statistics (UBoS) 2012 statistical abstract, the Ugandan population was projected to have increased to 34.1 million by 2012[48]. More than half of the population, that is, 51% are female. Uganda, however, like most African countries, is a patriarchal society with men dominating all sectors and spheres of life, which has negatively affected the inclusion of women in the development process[49].

In the water sector, women and girls are the major water collectors, users and managers in homes and the major promoters of household and community sanitation activities[50]. They, therefore, bear the impact of inadequate, deficient or inappropriate water and sanitation services. Men, however, still dominate the arena of planning and decision making regarding water and sanitation development and women's views are often under-represented, implying that women's practical[51] and strategic[52] needs are not addressed[53].

In line with the Uganda Gender Policy (UGP, 2007)[54], and the National Development Plan (NDP, 2010), the Ministry of Water and Environment established the Water Sector Liaison Division (WSLD) to facilitate gender mainstreaming within the Ministry and the water sub sector. WSLD spearheaded the development of the Water and Sanitation Sector Gender Strategy (WSSGS, 2010 - 2015) to ensure equity in access and control of resources in the water and sanitation sector, leading to poverty reduction[55].

48 By the time of audit, the actual population had not been ascertained.

49 Source: http://www.wikigender.org/index.php/GENDER_IN_THE_WATER_SECTOR_IN_UGANDA#

50 Water and Sanitation Sector Gender Strategy (WSSGS, 2010 - 2015)

51 These are the immediate requirements for addressing an existing problem related to socially ascribed roles and responsibilities.

52 These arise out of the analysis of women's position relative to that of men.

53 Ibid.

54 Cf. Uganda Gender Policy (2007): Institutional Framework for the Implementation of the Uganda Gender Policy; pg. 23

55 Water and Sanitation Sector Gender Strategy (WSSGS, 2010 - 2015); pg. ix

In spite of the above efforts, there remain significant gender issues in the sector; for instance, top positions in most Water and Sanitation Committees (WSCs) were still dominated by men: 86.8% of Chairpersons, 66% of Vice Chairpersons and 72.1% of Secretaries[56].

In addition, although the average water access for Uganda stood at 65% by 2010, the water access in 48% of the districts was below this average thus implying that women and children in almost half of the districts still had to walk long distances looking for water.[57]

On the basis of the above concerns, therefore, it was prudent that an independent assessment of gender mainstreaming in the Ministry of Water and Environment be undertaken by the Office of the Auditor General to ascertain the extent of achieving its intended objectives.

4.1.3 DESCRIPTION OF THE AUDIT AREA

MANDATE

Under Article 21 and 32, the Constitution of Uganda provides for equality and freedom from discrimination, and affirmative action in favour of marginalized groups including women respectively.

Furthermore, the Uganda Gender Policy, 2007 gives responsibility to all government entities to address gender inequalities in order to attain gender equality[58] and women's empowerment. In addition, the current water policy based on the Water Statute (1995), recognises the role women play in the provision and maintenance of water sources.

The supporting framework for the implementation of gender mainstreaming is derived from: the Millennium Development Goal (MDG)[59], National Development Plan (NDP)[60],national budget call circular and specific gender policies put in place by the Ministry of Water and Environment which require the Ministry to mainstream gender in its plans and budgets.

Vision and Mission Statement

The Vision and Mission of MWE are as stated below[61]:-

MWE Vision

"Sound management and sustainable utilization of water and environmental resources for the betterment of the population of Uganda."

MWE Mission

"To promote and ensure the rational and sustainable utilization, development and effective management of water and environment resources for socio-economic development of the country."

Objectives

The objectives of the MWE regarding gender mainstreaming in the Water and Sanitation Sector are outlined in its strategy[62], as stated below:

Overall objective

"The goal of the WSSGS II is to empower women, men, and vulnerable groups through ensuring equity in access and control of resources in the water and sanitation sector, leading to poverty reduction."

Specific Objectives

1. Integrating a gender perspective in the water and sanitation sector policies and developing guidelines to operationalize gender in programme planning, implementation, monitoring and evaluation.
2. Enhancing capacity of the water and sanitation sector stakeholders for gender mainstreaming.
3. Improving opportunities for men, women and other disadvantaged groups to access water and sanitation facilities and to participate in their management.

Activities carried out by MWE

1. Development of sector-specific gender policies
2. Developing the capacity of members of staff both at

56 Uganda Water and Environment Sector Performance Report, 2011; pg. 208

57 Cf: http://chimpreports.com (Title: "Uganda Minister: Cattle Corridor Lacks Access To Clean Water")

58 Uganda Gender Policy 2007 Page 23

59 Millennium Development Goal 3 (2015)

60 National Development Plan (2010/11-2014/15)

61 Obtained from the Strategic Sector Investment Plan for the Water and Sanitation Sector in Uganda (MWE, 2009)

62 Water and Sanitation Sector Gender Strategy (WSSGS, 2010 - 2015)

MWE and in districts on gender mainstreaming

3. Ensuring that all sector gender activities are budgeted for.

4. Annual monitoring of gender activities and carrying out gender impact studies every two years.

5. Reporting on gender mainstreaming in the sector performance report.

Organizational Structure

The structure of the Ministry comprises three ministers- the Cabinet Minister, the State Minister for Water and State Minister for Environment. The technical arm is headed by the Permanent Secretary and operates under two distinct sub-sector working groups namely; The Water & Sanitation sub-sector working group and The Environment sub-sector working group. The Water & Sanitation sub-sector working group is sub-divided into two directorates: Directorate of Water Resources Management (DWRM) and Directorate of Water Development (DWD), while the Environment sub-sector working group comprises the Directorate of Environmental Affairs (DEA).

Although the Ministry's current organizational structure places the Water Sector Liaison Division (WSLD) under the Directorate of Water Development (DWD), this division (WSLD) is responsible for spearheading gender mainstreaming throughout the MWE. The members of staff in the WSLD include: one (1) Principal Sociologist, 2 Senior Sociologists, 11 Sociologists and 3 Community Mobilization Specialists attached to the different departments and Technical Support Units (TSUs).

4.1.4 AUDIT OBJECTIVES

The overall objective of the audit was to assess the efforts of MWE, through the Water and Sanitation Liaison Division (WSLD), in ensuring the implementation of gender mainstreaming in the rural water sub-sector.

The specific objectives were:

a. To ascertain the extent to which the issues of gender mainstreaming were integrated in the planning, implementation, monitoring and evaluation of activites by MWE.

b. To assess the effectiveness of WSLD's capacity-building initiatives in ensuring the implementation of gender mainstreaming in the water sub-sector; and

c. To assess the extent to which the WSLD monitored and supervised gender mainstreaming activities in the water sub-sector with a view of improving opportunities for men, women and other disadvantaged groups to access water facilities and to participate in their management.

4.1.5 AUDIT SCOPE

The audit was carried out nationwide and focused on the extent to which the Ministry of Water and Environment had integrated a gender perspective and developed guidelines, conducted capacity building and monitored activities to operationalize gender mainstreaming in the rural water sub sector. The study covered three financial years: 2010/11, 2011/12 and 2012/13.

4.1.6 AUDIT METHODOLOGY

Sampling

Since MWE implements its activities countrywide and is mandated to mainstream gender in all of them, seventeen (17) districts were randomly selected for audit purposes. In addition, four (4) out of eight (8) Technical Support Units (TSUs) were selected for audit. The districts selected included: Amolatar, Namayingo, Moroto, Mubende, Mayuge, Bugiri, Kyenjojo, Bukomansimbi, Apac, Tororo, Kisoro, Kole, Soroti, Kiboga, Buikwe, Dokolo, and Lwengo, while the TSUs included Mbale, Lira, Mukono and Mbarara. The coordination centre for gender mainstreaming in the rural water sub sector, which is located in MWE headquarters was also selected.

Data collection methods

Various methods were used for collecting data from the field and these included: document review, interviews and physical inspections.

Document review

Various documents were reviewed to understand gender mainstreaming operations within the water sub sector, and extract data relating to provision of water points in communities, siting of the water points, sustainability and level of functionality of these water points, level of monitoring and level of consultation of the benefiting communities and any other support in terms of training efforts by the different stakeholders.

Interviews

Fifty three (53) interviews were conducted during the audit in order to assess the operations of MWE and to corroborate the information obtained from other sources, such as: inspection and document reviews.

Physical inspection

Physical inspection/observation was carried out in all the selected districts with the aim of understanding the extent of utilization and benefit of the rural water source to the populace. The audit inspected rural water supply systems, that is, boreholes, shallow wells, protected springs and rainwater harvesting tanks.

4.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, findings on the mainstreaming of gender within the water sub sector by the Ministry of Water and Environment are presented in reference to the audit objectives.

Audit notes the achievements of MWE as being the first ministry to develop a sector specific gender strategy, recruitment of a gender specialist team (Sociologists) dedicated to coordinate and implement gender mainstreaming and developing gender monitoring indicators which were incorporated into the Ministry's sector reporting formats.

However the following areas where identified for improvement:

4.2.1 PLANNING, BUDGETING AND FUNDING OF GENDER-RELATED ACTIVITIES

Section 6.0 of the Uganda Gender Policy requires MWE to commit adequate resources for implementation of gender related activities. This means that MWE should adequately plan, budget and fund the gender related activities.

Audit noted that of all the Government ministries, MWE is one of the only three (3) ministries which had developed a strategy in line with the Uganda Gender Policy (UGP, 2007) and the National Development Plan (NDP, 2010). The Water and Sanitation Sector Gender Strategy (WSSGS, 2010 – 2015), was developed to ensure equity in access and control of resources in the water and sanitation sector.

This strategy outlines eight (8) activities to be implemented over a five-year period[63]. Of these activities, five (5) were to be undertaken annually while three (3) were to be undertaken in the financial years under review (FY 2010/11 to FY2012/13).

For the three financial years under review, only 2 of the 5 activities to be undertaken annually were included in the Ministry's annual operational plans (Ministerial Policy Statements- MPSs) while the others (3) were omitted. The three (3) activities to be undertaken in FY 2010/11, 2011/12 and 2012/13 were also not included in the respective MPSs. Details are shown in table 13 below.

Table 13: Showing status of planning for Gender

63 Refer to Water and Sanitation Sector Gender Strategy (WSSGS, 2010 – 2015), Table 2: Budget Estimates for Implementation of Gender Specific Activities of the WSSGS II (pg. 30)

Strategy activities

S/N	PLANNED ACTIVITY	PROPOSED YEAR OF IMPLEMENTATION	STATUS: PLANNED FOR IN MPSs (YES/ NO)
1.	Production and dissemination of the Water and Sanitation Sector Gender Strategy (WSSGS II) (2010/11 and 2014/15)	2010/11 - 2014/15	YES
2.	Regional Gender workshops for district staff (2010/11 – 2014/15)	2010/11 - 2014/15	YES
3.	Gender training workshops for MWE staff	2010/11 – 2014/15	NO
4.	Participation in Women's Day celebrations	2010/11 – 2014/15	NO
5.	Monitoring gender activities	2010/11 – 2014/15	NO
6.	Production of the Water and Sanitation Sector (WSS) gender resource book	2010/11	NO
7.	Review of WSS Golden Indicators and engendering reporting formats	2011/12	NO
8.	Gender study	2012/13	NO

Source: Water and Sanitation Sub-Sector Gender Strategy (2010-15) and Ministerial Policy Statements (2010/11-2012/13)

Further analysis of the causes and implications of the above planning status is discussed below:

Gender Strategy activities that were planned for in the Ministerial Policy Statements (MPSs)

The two (2) activities that were planned and budgeted for in the MPSs were combined with other activities such as HIV/AIDS mainstreaming. WSLD had no detailed work plans and budgets indicating breakdown of the combined activities.

Through interviews conducted, MWE officials faulted the Output Based Budgeting Tool (OBT) for this discrepancy, saying it did not provide for detailed entry of planned outputs. As a result, they hold verbal discussions with the planner stating the WSLD's intended outputs and projected costs on gender related activities, and these are then entered into the OBT in the acceptable format.

However, Audit attributed the failure by the MWE to have detailed work plans on gender and the combining of the activities to disregard of proper planning procedures that require implementing departments to submit approved detailed work plans to the planner before entering these activities in the OBT.

Without distinct plans and budgets for gender-related activities, it is difficult to:

- Keep track of progress with regard to gender mainstreaming, or implementation of the gender strategy.
- Trace the monies specifically allocated to these activities and the expected outputs.
- Ascertain whether monies released for the activities were adequate.

Gender Strategy activities that were not planned for in the Ministerial Policy Statements (MPSs)

Through interviews, MWE officials attributed failure to plan for the above activities to limited resources. Audit, however, attributed the failure to plan for these activities to non-prioritization by the MWE, since these activities were not planned and budgeted for in any of the years under review. The Budget framework papers for the years made no mention of unfunded gender priorities.

As a result of failure to plan and budget for these strategy activities, it was noted that key deliverables, like: production of a WSS gender resource book, gender impact studies and reporting of progress of gender mainstreaming in the sector performance report, was not done.

Management Response

Management acknowledges this and will ensure that activities as outlined in the Water Sub Sector Gender Strategy (2010-15) are clearly planned with distinct work plans and budgets for gender-related activities. However the scope of activities to be included in the budget will depend on funds available/ allocation to the Ministry and the prioritization as approved by the Water and Environment Sector Working Group

Conclusion

In the absence of detailed annual and quarterly work plans and budgets for gender-related activities, it is difficult to assess the adequacy of planning, budgeting and funding of gender related activities and track performance in line with the UGP and the Ministry's Gender Strategy 2010-15. The activities which were not implemented defeat the purpose for which the gender interventions were meant to address.

Recommendations

- MWE should prioritize gender interventions and ensure that all strategy activities outlined in the WSSGS II are clearly planned and budgeted for implementation in the annual Ministerial Policy Statements. In cases where funding is not adequate, inclusion of such activities under unfunded priorities helps provide information and reminders to decision makers of the necessity/priority of the activity.
- The WSLD should always prepare written and distinct work plans and budgets for gender-related activities on annual and quarterly basis before they are entered into the OBT.

4.2.2 CAPACITY BUILDING FOR GENDER MAINSTREAMING

According to the gender strategy, the MWE is required to build the capacity of sector staff in gender mainstreaming. The capacity building involves training, dissemination of gender literature and continuous mentoring and support. The purpose of the capacity building initiatives is to enable sector staff to incorporate gender issues within planning, budgeting implementation and reporting of their activities.

An assessment of the MWE's capacity building initiatives for district and ministry staff is as follows:

Capacity building for district staff

Trainings for district staff by WSLD

MWE planned to carry out regional gender workshops for district staff. Since MWE has the mandate to provide safe water to all parts of Uganda, the training expectations were for all officers in the 111[64] districts of Uganda categorized in the eight (8) Technical Support Units (TSUs).

The training was meant to familiarize DWOs and CDOs with the new gender strategy, and equip them with gender analysis and mainstreaming skills.

It was noted that the WSSGS II and the MPSs did not indicate how many staff should have been trained per year. However, through review of training and dissemination reports for the gender strategy, it was noted that in the period under review, the Ministry carried out training for staff in three (3) out of the eight (8) regions. The total number of DWOs and CDOs trained in these three (3) regions was 30 and 21, respectively, out of 111 countrywide, which represents 27% and 19% of expected trainings, respectively. No training was undertaken in FY 2010/11. Details of trainings held are shown in table 14 below:

64 The total number of districts during the period under audit

Table 14: Showing regional training on gender mainstreaming conducted by MWE

FY	DATE OF TRAINING	REGION TRAINED	TRAINING VENUE	NO. OF PARTICIPANTS	
				DWOs	CDOs
2010/11	-	-	-	-	-
2011/12	19-23 September, 2011	TSU 7 (Masaka)	Hotel Brovad, Masaka	8	6
	16-20 April, 2012	TSU 2 (Lira)	Lira Hotel, Lira	15	4
2012/13	24-28 March, 2013	TSU 8 (Mbarara)	Lake View Hotel, Mbarara	7	11
TOTAL				30	21

Source: Training and Dissemination Workshop reports for the 2010- 2015 Water and Sanitation Sub-Sector Gender Strategy.

According to the MWE officials interviewed, failure to train staff from all the eight (8) TSUs was due to limited funding. However, Audit attributes it to lack of prioritization since no plans for training all the eight (8) TSUs were developed.

With the limited training, the implementing officers in the districts may not be able to adequately analyze and mainstream gender in the water sector. The following districts visited were not trained: Namayingo, Moroto, Mubende, Mayuge, Bugiri, Kyenjojo, Tororo, Kisoro, Kole, Soroti, Kiboga, and Buikwe. As a result of inadequate training, various non-compliances arose due to the knowledge gap among implementing officers.

Picture 4: showing two water points in Nassinu village, Namayingo trading centre (T/C) in Namayingo district

Picture 4-1: The path to the spring goes through a thick bush on either side

(Picture taken by OAG staff on 26/11/2013)

Picture 4-2: The protected spring that the majority of the community has abandoned. (Picture taken by OAG staff on 26/11/2013)

Picture 4-3:The dirty water that some community members have resorted to fetching because the siting of the shallow well is safe and near the homesteads.

(Picture taken by OAG staff on 26/11/2013, Shallow well in Nassinu Village, Namayingo T/C)

Picture 4-4:The dirty water that the community has resorted to because the siting of the shallow well is safe and near the homesteads.

(Picture taken by OAG staff on 26/11/2013, Shallow well in Nassinu Village, Namayingo T/C)

Support and mentoring of districts by TSUs

According to the Water and Sanitation Sub-Sector Gender Strategy (2010-15)[65] TSUs are required to support district and lower local governments in planning, monitoring and evaluation through mentoring and training to ensure that gender is mainstreamed in the water sub sector activities.

It was noted that TSUs only provided support during the initial training given to water user committees at the water sites, annual district advocacy meeting and when called upon for a meeting in all the 17 districts visited. 10 out of 17 DWOs and 12 out of 17 CDOs further revealed that they had not received any specific training on gender issues in the water sub sector but gender implications had only been mentioned during these meetings and monitoring visits with TSUs.

WSLD management attributed this gap to the limited funding given to the TSUs, that does not allow for continuous training and monitoring to identify the gender issues and develop interventions to address the identified gaps. However, audit attributed the limited support to the absence of a documented framework of training and the low priority given to gender issues during monitoring activities. This limited support has led to limited knowledge, awareness and ownership among district staff as regards gender.

Training of MWE staff by WSLD.

The Uganda Gender Policy (UGP, 2007), requires government entities to build capacity of its staff in gender analysis, planning and budgeting.

Through interviews and document review, audit noted that the Ministry had not trained any of its permanent staff in gender mainstreaming during the three years under review. However, it had trained 20 contract staff (TSUs) in gender mainstreaming in November 2010.

Audit further noted that in November 2013, the Ministry had seconded 20 MWE Department Budget Focal Point officers and Gender Focal Point Officers to attend training in developing gender sensitive plans, budgets and policies organized by Ministry of Finance, Planning and Economic Development.

The WSLD officials interviewed attributed the failure to organize trainings for permanent MWE staff in gender

65 Water And Sanitation Sub-Sector Gender Strategy (2010-15) Page 28

mainstreaming to limit funding. Audit however, attributed it to failure to prioritize the activity, as it was neither planned nor budgeted for in all the years under review.

Failure to train MWE staff on gender mainstreaming creates an environment of non-ownership of gender mainstreaming issues by ministry officials resulting in gender-blind planning, budgeting and monitoring.

Management response

- **In a bid to enhance gender mainstreaming among MWE staff a capacity building workshop for 57 MWE staff is scheduled to take place from the 16th to 20th of March 2014.**
- **In FY 2013/14 MWE has prioritized capacity building initiatives for Local Governments earlier on not trained as indicated in the table 15 below.**
- **Management shall develop a detailed gender capacity building programme.**

Table 15: Table showing Capacity building schedule for Local Governments

TSU	Districts	Planned Training Date	Status
TSU 1	Adjumani, Arua, Koboko, Maracha, Moyo, Nebbi, Yumbe, Zombo	May 2014	On Course – Procurement of hotel facilities ongoing.
TSU 3	Amuria, Katakwi, Kaberamaido, Kumi, Bukedea, Soroti, Serere, Moroto, Kotido, Kaabong, Abim, Nakapiripit, Amudat, Napak, and Ngora	June 2014	On Course- Procurement of hotel facilities ongoing.
TSU 4	Namutumba, Kaliro, Kamuli, Jinja, Iganga, Bugiri, Butaleja, Manafwa, Mayuge, Bulambuli, Kibuku, Buyende, Namayingo, Luuka Kapchorwa, Bukwo, Kween, Sironko, Bududa, Mbale, Busia, Tororo, Pallisa, and Budaka	Jan 2014 April 2014	Done- Capacity building undertaken from 10th to 13th February 2014. On Course- Procurement of hotel facilities ongoing.
TSU 5	Buikwe, Bulisa, Butambala, Buvuma, Gomba, Hoima, Kayunga, Kiboga, Kiryandongo, Kyankwanzi, Luweero, Masindi, Mpigi, Mukono, Nakaseke, Nakasongola, and Wakiso	March 2014	Capacity building to be undertaken from the 11th to 14th March 2014

Conclusion

WSLD has failed to prioritize continuous capacity building of implementing officers on gender issues in the water sub sector thus resulting in gender-blind planning, budgeting and implementation of the district water and sanitation activities which could affect the sustainability of these water points

Recommendations

- **MWE should ensure that the planned trainings are undertaken;**
- **In addition to the planned trainings, WSLD should develop a mechanism to assess the impact of such capacity building programs in achieving the gender goals.**

4.2.3 ACCESS TO WATER FACILITIES AND PARTICIPATION IN THEIR MANAGEMENT

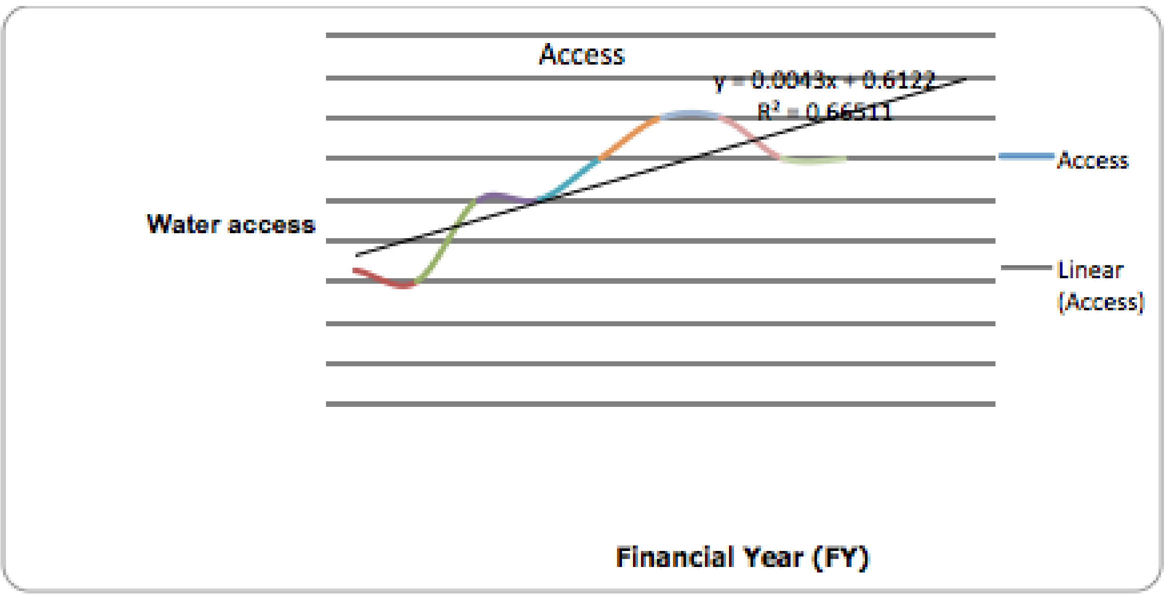
Objective three of the WSSGS II is to improve opportunities for men, women and other disadvantaged groups to access water and sanitation facilities and to participate in their management. In line with this objective, the Ministry committed itself to achieve the following targets by the end of FY 2014/15: increase the percentage of the rural population with access to safe water facilities to 77% by the end of FY 2014/15; ensure that all (100%) WUCs have equal numbers of men and women, and that 90% of WUCs have at least a woman holding a key position.

Through document review, audit noted that the Ministry is unlikely to meet these targets for various reasons. An analysis of performance on each of the above targets and reasons for the observed performance follows:

Percentage of the rural population with access to safe water facilities

Between 2004/05 and 2012/13, the percentage of the rural population with access to safe water facilities fluctuated between 61% and 65%. In the period under review, the water access stood at 65%, 64% and 64% for FYs 2010/11, 2011/12 and 2012/13, respectively[66]. Based on the above trends, it is unlikely that the Ministry will achieve its access target of 77% by the end of 2014/15. A projection of access, based on previous performance, is shown in figure 7 below:

Figure 7: Showing projected rural water access by FY 2014/15 based on previous performance



Source: OAG analysis of MWE Rural Access figures from SIP, 2009 and SPRs (2011, 2012 and 2013)

66 SIP, 2009 and SPRs (2011, 2012 and 2013)

Audit noted that the slow increase in access was partly due to inadequate prioritization by the Ministry to ensure that new water facilities are established coupled with increases in non-functionality of water points.

Table 16 below shows the estimated increase in rural population over the review period, as well as the number of new people served under the Rural Water Services.

Table 16: Estimated increase in rural population vs. number of new persons served

Financial Year	Estimated rural population (persons)*	Increase in rural population (persons)	New persons served**
2009/10	26,003,600		
2010/11	26,951,300	947,700	559,136
2011/12	27,930,600	979,300	542,026
2012/13	28,937,600	1,007,000	535,586

Sources: *2013 Statistical Abstract (UBoS, 2013); page102 and **Uganda Water and Environment Sector Performance Report, 2013 (MWE, 2013); page 56

As shown in the table above, the number of new persons served in the review period is less than the estimated increase in population. This means that access cannot increase.

Furthermore, the national functionality of rural water supplies has stagnated in the range of 82% to 84% over the last 9 years, which trend casts doubt on whether the target of 95% will be achieved by 2015[67]. As a result, women and children who are the major collectors and users of water will continue to be deprived of access to safe water affecting their health and wellbeing.

Management Response

- MWE has secured authority from PPDA to utilize Hand Pump Mechanic Associations (HPMAs) based at the district level to repair non- functional sources using the District Water and Sanitation Conditional Grant (DWSCG) at a much lower cost than the open market.
- MWE has also increased the allocation for rehabilitation of sources from 8% to 13% of the DWSCG over the year. Special approval can also be provided on a case by case basis to increase allocation for areas with lower functionality while maintaining our policy of 'Some of all, not all for some'
- MWE has in addition prioritized the challenge of functionality of water sources by preparing a comprehensive plan for funding by MoFPED
- Stagnating access to safe water is due to budgetary constraints. As a response to this challenge, the Ministry compiled all the unfunded priorities and submitted them through the Budget Framework paper for FY 2014-15 to the Ministry of Finance, Planning and Economic Development.
- The Ministry has in addition started upgrading water supply technology options from hand-pumped deep wells to small piped water systems for Rural Growth Centers that can serve a bigger population.

Conclusion

Audit acknowledges management's interventions to ensure increased functionality of water sources and access to water in rural areas. A follow up audit is envisaged to assess the impact of these interventions.

Recommendations

- MWE should expedite the process and interventions aimed at improving the number of functional water

67 SIP, 2009 and SPRs (2011, 2012 and 2013)

sources.

- MWE should encourage District Local Governments to enact bylaws to protect water sources in the district
- MWE should engage and follow up with MoFPED to ensure that submitted proposals/ requests aimed at increasing functionality and access are funded.

Participation of Women in Management of Water Sources

Percentage of WUCs which have equal numbers of men and women

According to the National Water Policy 1999 and the WSSGS II, at least 50% of all WUC members should be female.

Audit noted that although the Ministry requires districts to submit data on the number of men and women constituting each WUC[68], the indicator was not reported on in any of the Ministry's Sector Performance Reports for all the years under review. Furthermore, interviews with officials from 12 districts revealed that 6 of them (50%) were not aware that women should comprise at least 50% of each WUC.

Results of analysis of 160 data collection forms submitted during FY 2011/12 randomly picked for the 16[69] districts (that is 10 forms per district) indicated that 10 out of 16 districts submitted data on composition of WUCs, while 6 submitted information on composition for some WUCs. In addition, where the data was provided, 37.5% of WUCs had at least 50% women, while 62.5% did not meet this requirement. Results from this analysis showed that the districts of Amolatar, Lira and Tororo met the 50% women by composition criteria, while the districts of Bukomansimbi, Dokolo, Kiboga, Kisoro, Moroto and Mubende had no single WUCs satisfying this requirement.

Percentage of WUCs where at least one woman holds a key position

According to MWE's Golden Indicator 10, all WUCs are required to ensure equal participation of men and women in planning for and management of water sources, by ensuring that both men and women hold key management positions.[70] To this effect, one of the Ministry's gender targets was to ensure that 90% of WUCs have at least one woman holding a key position by the end of FY 2014/15[71].

Through review of the Ministry's Sector Performance Report for 2013 and interviews with Ministry staff, audit noted that the target on this output had been raised to 95% by 2014/15. However, as shown in table 17 below, the percentage of WUCs with women holding key positions has not changed much over the years.

Table 17: Percentage of WUCs with women holding key positions

Financial Year	2010/11	2011/12	2012/13
Performance (%)	81	82	80

Source: Uganda Water and Environment Sector Performance Reports (2011, 2012 and 2013)

Through review of TSU annual monitoring reports and interviews with WUC members, DWOs and CDOs, the limited participation of women in management of water sources was attributed to inferiority complex and their preoccupation with domestic chores.

Information from Kyenjojo, Dokolo, Kole, Buikwe, Kiboga, Kisoro and Mubende districts, indicated that the

68 MWE's Form 1: Data Collection Form for Point Water Sources

69 This analysis could not be applied to Lwengo since all the Forms in the sample pertained to Rainwater Harvesting Tanks. Since these are owned by a single homestead/individual, they do not require a WUC.

70 The key positions in management of water facilities include those of chairperson, treasurer, secretary and vice-chairperson.

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main reasons for the inferiority complex include: the patriarchal nature of many societies, illiteracy among women, and low income. As a result, some women shy away since they believe that the duties of WUC members, for instance, mobilizing people to clean the water source and its surroundings, as well as collecting O&M fees can only be successfully done by men, since these can be listened to by both men and women.

A review of MWE's Sector Performance Report 2011[72] also indicated that 40.3% of WUC members interviewed confirmed that women were more often insulted by the very people that elected them to oversee the maintenance of water sources. Women tend to be disrespected and their efforts to enforce the agreed by-laws (such as not washing from the water source, not using dirty jerry cans to draw water) are often ignored, not only by men who collect water, but in some instances children as well. This discourages them from actively participating.

While agreeing with the explanations given above, audit further attributes the limited participation of women to inadequate sensitization of the DWOs and CDOs, since, as already noted above, over 50% of them were unaware that at least a half of the members on each water user committee should be female.

Management Response

- Management has taken note and will endeavour to disaggregate data on WUC composition. The Gender reporting format for districts shall be reviewed to capture this information.
- MWE coordinates gender mainstreaming activities including policy formulation and capacity building initiatives with MoGLSD, MoFPED and NGOs under the Uganda Water and Sanitation NGO Network (UWASNET.)
- At the Local Government level, water and sanitation community mobilization activities are undertaken by Community Development Officers and Health Assistants.

Audit response

Empowerment and sensitization to break gender stereotypes are continuous endeavours which require the input of various stakeholders if they are to bear fruit over time. The gaps identified above indicate that MWE still needs to step up efforts in this area, in collaboration with the stakeholders mentioned by Management.

Conclusion

Limited participation of women in management of water facilities means that they cannot adequately contribute to decisions regarding utilization of water sources. This means that women's water needs/concerns may not be captured and also that women's unique capabilities to manage water sources will be missed, ultimately contributing to increased non-functionality of water sources. The latter assertion is justified by the findings of a study conducted by MWE, as illustrated below:

The positive effect of having women in leadership positions of WUCs.

A study conducted by MWE on the Community-Based Maintenance Systems for rural water supply facilities covering 120 WUCs, shows that women occupying positions of chairpersons in WUCs had a positive effect on the functionality of water supply facilities. It was found that all water sources whose WUCs were chaired by women were functional, while 16.2% of those chaired by men were non-functional. **(Source: Uganda Water and Environment Sector Performance Report, 2011).**

72 Ministry of Water and Environment Sector Performance Report 2011 **page 208**

Recommendations

- MWE should expedite the disaggregation of data on WUC composition by gender, and ensure that all districts do the same.
- MWE should liaise with MoGLSD, DLGs and other relevant stakeholders to empower women and intensify the sensitization of communities (men and women) to break gender stereotypes. There is need to further intensify the functional adult literacy activities by MoGLSD

Community contribution towards capital cost

According to the Ministry's Sector Investment Plan (2009)[73], one of the ways of ensuring sustainability of water sources was through inculcating a sense of ownership for the facilities among the beneficiaries. Some of the mechanisms devised to instill this sense of ownership included: the institution of a capital contribution required from the community before they could be given a water source, and the requirement that operation and maintenance (O&M) fees for water sources be met by the communities in cases where minor repairs are needed. Ensuring continued functionality of rural water sources is a shared responsibility of MWE and the beneficiary/user communities.

Accordingly, the MWE in its sectoral specific schedules/guidelines 2011/12[74] set the amounts of capital contributions by the communities as shown in table 18 below:

Table 18: Showing community contribution towards capital cost

Type of Technology	Community Cash contribution per Source (UGX)
Springs.	
Small.	45,000
Medium.	45,000
Ex- Large	100,000
Deep borehole	200,000
Shallow well (motor drilled/ hand augured/ hand dug	100,000
Borehole rehabilitation	90,000

Source: Ministry of Water and Environment Sectoral Specific Schedules/Guidelines 2011/12 Pg. 18.

However, through interviews with MWE's management and district officials in Mayuge and Namayingo districts, audit found that sometimes individuals pay the capital contribution on behalf of the communities and as a result, the beneficiary communities perceive the new water points to be owned by the individuals who paid the capital contribution. This makes them reluctant to pay for the repairs, perceiving that the repairs are also the responsibility of the benefactor.

The water user committees in these districts attributed the above case to an awareness gap among the communities about the objectives of capital contribution and the implications of communities failing to pay this money. In other communities, the high levels of poverty hindered their ability to pay the capital contributions and hence limited access to safe water or use of unsafe water sources, which impacted more on the women and children who are the main water collectors.

73 Cf. Strategic Sector Investment Plan for the Water and Sanitation Sector in Uganda(2009); pages 49 and 52

74 Ministry of Water and Environment Sectoral Specific Schedules/Guidelines 2011/12 Page 18

Management Response

Community awareness activities are prioritized within district works plans and budgets. DWSCG for 2013/14 mandate districts to appropriate up to 8% of the budget on community awareness activities.

Management through TSUs shall ensure that districts adhere to this sector guideline through continuous follow up and capacity building initiatives. The district reports shall be scrutinized to ensure that sector guidelines are adhered to.

Conclusion

WSLD has not closely monitored districts to ensure that district officials sensitize grassroots communities on the importance of all members contributing to the capital contribution cost for water sources. In such cases, communities perceive the water source as owned by the individual who paid the money and this impact on the sustainability of the water point.

Recommendation

WSLD management should follow up/monitor to ensure that the districts' 8% budget allocations to awareness activities of grassroots communities and community leaders is put to effective use.

Operation and maintenance fees

According to the Ministry of Water and Environment sectoral specific schedules/guidelines 2011/12[75], water users are supposed to make monetary contributions for the operation and maintenance (O&M) of the water sources. The fee is paid to and managed by the water user committees (WUC).

Additional guidelines for collection of O&M fees are outlined in the Rural Water and Sanitation Extension Workers Hand Book (2000) and the Community Resource Book (2007).

Audit observed that although guidelines require communities to make monetary contributions, the amount is not specified and thus water user committees can set fees depending on the needs of the water point. Furthermore, through document review[76] and interviews with 14 out of 17 DWOs, audit noted that most water users did not contribute these fees as required.

The reasons for non-payment included the following:

- The fact that men do not consider payment of the fees as important since they do not fetch water. There is inadequate sensitization of community members, especially men, on the importance of contributing towards maintenance of water sources.
- The fire-fighting approach used by most WUCs which collect the fee only after a water facility breaks down. In such instances, the fees tend to be too high for community members to afford. District local governments (DLGs) have failed to advise WUCs on the importance of collecting regular, O&M fees rather than one off when the facilities break down.
- Perception by some water users that WUCs are corrupt. District Local Governments, TSUs and MWE officials have not followed up to ensure that WUCs properly manage and account for the fees collected for O&M activities, in line with the requirements set out in the National Framework for Operation and Maintenance of Rural Water Supplies in Uganda (MWE, 2011).

In addition, even where communities willingly pay the O&M fees, the constant breakdown of the boreholes created fatigue among members who contributed. A case in point was Kisindizi T/C in Mubende District where audit noted that Kisindizi water user committee (**Borehole DWD-14428**) collected an average of UGX 200,000 per month for repairs and maintenance. These collections caused some community members to question whether the committee members actually used the money for repairs and maintenance of their borehole. A review of their fees collection books indicated that the collection and use of the money was recorded but audit could not independently confirm whether this WUC actually spent the money on purchase of the spare parts for the

75 Ministry Of Water and Environment Sectoral Specific Schedules/ Guidelines 2011/12 Page 10

76 Promoting Transparency, Integrity and Accountability in the Water and Sanitation Sector in Uganda: A report by Water Integrity Network and Water and Sanitation Program (2010),

borehole. This very WUC has had to replace spare parts worth over UGX 2 million in one year coupled with the regular maintenance of the borehole as indicated in their water user committee records. The continuous breakdown of facilities was attributed to huge demand in some communities that lead to overworking of the facilities, as well as poor quality spare parts/ materials on the market. Through interviews with DWOs and WUC members, and review of TSU quarterly monitoring reports, the issue of poor quality spare parts was noted in the districts of Mayuge, Namayingo, Bugiri, Mubende, Apac, and Kiboga. It was also reported on in the Ministry's Sector Performance Report, 2013 (pg. 54).

The continuous breakdown and repairs of the water points translates into continuous collections of fees from the communities, which in turn leads to fatigue on the part of the paying communities.

Management Response

MWE through TSUs will support districts to intensify awareness raising interventions on the importance of contributing towards maintenance of water sources and on continuous monitoring and mentoring of WUCs.

Conclusion

MWE has not adequately addressed the underlying causes of community reluctance to pay O&M fees such as inadequate appreciation of its importance by men, absence of proper accountability practices by WUCs, poor collection strategies employed by WUCs and unsatisfactory quality of spare parts. Consequently, women and children who are the major water collectors end up walking long distances in search of safe water or using unsafe water sources when the water points break down.

Recommendations

- MWE should sensitize community members on the importance of contributing towards the maintenance of water sources.
- MWE should disseminate the guidelines to guide the collection management and accountability of regular O&M fees and build capacity of LG staff to use them.
- MWE should engage UNBS to ensure that the issue of poor quality spare parts is addressed.

4.2.4 MONITORING AND EVALUATION

Annual monitoring

According to MWE's Gender Strategy, the Water Sector Liaison Division (WSLD) is required to undertake annual monitoring of gender activities in all 111[77] districts of Uganda.

From a review of WSLD monitoring reports, audit observed that MWE monitored 25 (23%) of the 111 districts in Uganda during the period under review[78]. Even where the monitoring was undertaken, audit noted that some of the objectives of monitoring were not achieved. The areas that were often not assessed during monitoring include:

- District plans to follow up/ reactivate inactive/ dormant committees;
- Data collection methods in regard to community management and gender indicators;
- Community mobilization and training;
- Regularity of District Water and Sanitation Committees and Extension workers meeting.

In addition, through interviews with Ministry officials, it was noted that verbal rather than written feedback was given to the districts that were monitored. Without written feedback it was not possible to follow up on the recommendations made and their implementation and thus measure the effectiveness of the monitoring carried out.

MWE management attributed the limited number of monitoring visits to inadequate funding for the activity. However, audit attributed it to failure by MWE to plan and budget for the activity, since no gender mainstreaming monitoring visits were reflected in any of the Ministerial Policy Statements for the years under review.

77 Number of districts during period under review

78 The district monitored were Kyenjojo, Mubende, Kiboga, Soroti, Tororo, Mityana, Hoima, Mpigi, Mukono, Luweero, Wakiso, Busia, Manafwa, Sironko, Mbale, Amuria, Bukedea, Kumi, Serere, Mbarara, Bushenyi, Rubirizi, Sheema, Ntungamo, and Buhweju.

Management Response

- The Monitoring of gender interventions has been prioritized and is undertaken by Technical Support Unit staff on quarterly basis for all districts.
- MWE acknowledges the importance of written feedback and action shall be undertaken to ensure that written feedback is given to districts to facilitate implementation and follow up.

Audit Response

Although routine monitoring is supposed to be done by the TSUs, the WSLD should have planned for some supervisory monitoring visits of its own as required by the Ministry's gender strategy. This would enable the WSLD corroborate and address some of the issues documented in the TSU reports.

Conclusion

In the absence of monitoring, MWE will not be able to keep track of and monitor the implementation of water interventions, and address the negative unintended gender impacts of water interventions which may affect the attainment of the objective of ensuring access of water to women and children who are the main collectors and users of water.

Recommendation

- In addition to the monitoring to be done by TSUs, the WSLD should also carry out supervisory monitoring visits as envisaged in the gender strategy.
- The Monitoring visits done and the recommendations made should be documented and written feedback given to the districts to facilitate their implementation and follow up.

Gender impact studies

According to the WSSGS II, a gender impact study was scheduled to be undertaken in FY 2012/13. MWE envisaged that the study would be undertaken in collaboration with the Ministry of Gender, Labour and Social Development (MoGLSD), with the objective of assessing the extent of gender mainstreaming in the sector.[79]

However, audit found that the study had not been undertaken. MWE officials attributed this omission to lack of funds. However audit attributed it to failure by MWE to prioritize this activity since it was not budgeted for in the Ministerial Policy Statement, and no evidence was availed of correspondences with MoGLSD regarding the implementation of this activity.

Management Response

Management acknowledges this recommendation and has prioritized the impact study as a key activity for implementation in the FY 2014/15 budget.

Conclusion

Without carrying out gender impact studies, MWE cannot assess the extent to which the strategy has been implemented, and whether it is resulting in improved mainstreaming of gender as required.

Recommendation

The Ministry should engage MOFPED to ensure funding is obtained for the gender impact study in order to identify gaps and the implications of the gender interventions and thus assess the extent of gender mainstreaming in the water sector.

Engendering MWE's M&E System

According to the MWE Water and Sanitation Sub-sector gender strategy (pg.34), the WSLD was supposed to improve the sector monitoring and evaluation system to make it more gender responsive. This was to be achieved through engendering sector reporting formats by the end of 2010/11 and improve/ develop gender monitoring indicators by the end of the FY 2011/12.

Through interviews and document review, Audit noted that the WSLD had developed gender monitoring indicators, and these have been incorporated into the Ministry's sector reporting formats. Some of the new parameters/information that has been included in the reporting formats includes:

- Districts are required to incorporate reports on software activities (including gender in all their quarterly and annual reports on the utilization of the District

79 WSSGS, page 27.

Water and Sanitation Development Conditional Grant.

- Districts should indicate how many WUCs and communities were established, trained on O&M, gender, and participatory monitoring; what post-construction support has been given to WUCs.
- The software section of the report should report on what interventions were undertaken during the planning, budgeting, and implementation to ensure that marginalized and vulnerable groups access water; the gender-related challenges in O&M; and a case study on gender status in a selected community/ WUC. The software section of the report, as well as the data collection form for water sources point (Form 1), also include a section requiring districts to provide gender disaggregated data on composition of WUCs.

Developing gender monitoring indicators and engendering the reporting formats is a positive step towards enabling MWE to keep track of the actual impact of its interventions in the Rural Water Sector on men and women. MWE is also able to identify the obstacles to full participation in sector activities by both men and women, and can go ahead to devise appropriate solutions.

OVERALL AUDIT CONCLUSION

The Ministry has registered positive results in gender mainstreaming over the years. However in light of the above findings, gender inequality in the water sector is still evident in rural areas. More efforts in terms of prioritizing planning, budgeting, capacity building, sensitization and monitoring are necessary if MWE is to achieve its stated objectives of gender mainstreaming. It is hoped that with the promised interventions, the Ministry will go a long way towards achieving their goal of ensuring equity in acess and control of resources in the water and sanitation sector.

5

5.0 IMPLEMENTATION OF MARKET INFRASTRUCTURE COMPONENT OF THE MARKETS AND AGRICULTURAL TRADE IMPROVEMENT PROGRAMME (MATIP-1)

5.1 INTRODUCTION

5.1.1 BACKGROUND

The Government of Uganda (GoU) recognized the need to raise levels of urbanization in order for the country to achieve faster socio-economic transformation.[80] One of the GoU strategic objectives aimed at achieving the required urbanization levels was to develop and strengthen a competitive urban economy through putting in place an urban redevelopment, renewal and revitalization strategy. This was important because urban areas are considered dynamic and represent growing centres for industry, financial services, trade, education and other services. The urban people also enjoy better incomes and higher life expectancy.

However, Uganda is experiencing a rapid increase in urban population which is not matched with the growth and development in basic physical infrastructure, housing, social amenities and managerial skills. Besides, the existing market infrastructure which provides jobs for the urban poor is old and dilapidated (constructed way back in 1962 when the country attained its independence).

The Markets and Agricultural Trade Improvement programme (MATIP) therefore, is a GoU initiative/ intervention aimed at redeveloping and upgrading urban markets and food courts in order to address the aforementioned constraints/challenges.

The overall programme goal is to contribute to poverty reduction and economic growth in Uganda through enhanced commercialization of agricultural produce and other merchandise but specifically the programme objective is to improve market place economic and social infrastructure.

The first phase of the programme (MATIP project-1) is funded 90% by the African Development Bank (ADB) loan and 10% by GoU. The Arab Bank for Economic Development in Africa (BADEA) has also expressed interest to fund the project.

5.1.2 MOTIVATION

Agriculture has for long been a core sector of Uganda's economy and source of employment for a large number of people in the rural areas. Although its contribution towards the economy has reduced over the years, it currently contributes 23.9% of the total Gross Domestic Product (GDP) and employs 82% of the population both directly and indirectly[81].As a result government has invested in the sector to ensure economic transformation through projects like MATIP.

80 NDP 2010/11-2014/12 Pg. 173

81 Agriculture and economic transformation in Uganda; New vision 6/12/2012

The project, may, however not achieve its objective of social transformation through increased commercialization of Agricultural produce because of a number of operational and implementation challenges.

Public outcry points at attempts by MATIP project implementers to secretly alter designs and reduce the cost of some markets, a move that results into omission of some features and reduction of the intended market capacity[82].

There have also been reports of mismanagement of the process of vendor relocation to pave way for reconstruction of the new markets, with some vendors accusing the councillors of extorting money from them in order to relocate them to other sites[83].

The Auditor General's reports[84] on similar projects ,such as :Community Agricultural Access Improvement Program (CAAIP) and Area based Agricultural Modernization Program (AAMP) exposed a number of challenges during project implementation which range from delayed handover of sites to contractors, delayed completion of works, poor quality/shoddy works caused by substandard materials and inexperience of the contractors, inadequate supervision and flawed designs which led to contract variations and hence escalation of project costs[85].

It is against the above background that an independent review of MATIP phase 1 was undertaken by the Office of the Auditor General in order to ascertain the challenges affecting the implementation of the project, and suggest possible recommendations to improve performance.

5.1.3 DESCRIPTION OF THE AUDIT

General description

MATIP project was initiated in May, 2009 following the recommendations of the March 2008 feasibility study commissioned by Government of Uganda (GoU) through the Ministry of Local Government (MoLG). The study was intended to review and assess the infrastructural and operational state of the markets across the country. Its findings indicated poorly managed, dilapidated and overwhelmed (overpopulated) market infrastructure with poor working conditions. The markets were heavily congested with vendors operating under dilapidated structures that lacked basic amenities such as access routes, toilets, electricity and water supply as well as drainage and sewerage systems thus making them a potential public hazard. The study also noted the increasing pressure on the local governments to create more room in the available markets to accommodate the increasing number of vendors. This was manifested in the unprecedented rise in un-gazetted markets and the increasing numbers of vendors on urban streets thereby causing traffic flow problems.

This state of affairs compelled Government to take an affirmative decision to reconstruct well over 85 markets (19 central markets and 66 auxiliary markets) estimated to cost government a total of USD126 million. However, due to resource constraints, the reconstruction was phased to start with 21 identified markets. These were also further scaled down to seven (7) markets hence MATIP-Project-1 . MATIP-1 is being implemented in the towns of Lira, Gulu, Fort-portal, Hoima, Mbale, Jinja, and Kampala.

The project objectives were to provide additional working space, improve working conditions, provide adequate infrastructure services and social amenities, create better trading opportunities for vendors, increase revenue collections for local governments (LGs) and reduce the volume of waste and occurrence of market fires.

The project is comprised of three components namely:

- Market infrastructure development;
- Market management & trade enhancement and
- Programme management & coordination components.

Organization Structure

The top most governing organ of the project is the Inter-Ministerial Policy Committee (IPC) comprising ten (10) members. The IPC is chaired by the Permanent Secretary MoLG and provides policy oversight and guides

82 Gulu Residents Threaten Demo Over Altered Market Plan 6/13/2013 | Uganda Radio Network

83 Lira Market Vendors Accuse Municipal Concilors Of Extortion 6/7/2013 | Uganda Radio Network

84 OAG annual reports 2009/10 & 2010/11 FYs

85 Office of the Auditor general annual reports Vol. 5 2011/2012

project implementation. Under the IPC is the Project Facilitation Team (PFT) housed in the MoLG. The PFT is headed by the National Programme Facilitator (NPF) and is composed of specialists in different fields. The NPF coordinates the activities of the specialists and the beneficiary local governments. At the bottom of the structure are the Programme Support Officers (PSOs) who are municipal and town council staff designated to the project by mayors/town clerks. The municipal and town councils are the project implementation units.

Project Objective, outputs (deliverables) and activities.

The overall objective of MATIP is to "contribute to poverty reduction and economic growth in Uganda through enhanced marketing of agricultural produce and other merchandise." The specific objective is "to improve market place economic and social infrastructure thus inducing incremental production and marketing of agricultural commodities, enhancing the incomes of vendors, increasing employment and increasing customer satisfaction."

Project outputs

The project had initially targeted 21 markets but following a mid-term project review done between 29th April and 10th May 2013, the scope was reduced to seven (7) markets. However, the overall strategic objectives of the project didn't change as detailed below:

- To reconstruct 21 markets to include 3100 lockups/kiosks, 8200 stalls, 590 meat/fish units with 90 cold storage units, restaurants and eating kiosks.
- To construct paved pitches/space, vehicle parking/loading areas, water supply, washrooms, solid waste bays, drainage, fire-fighting systems and day care centres
- To establish management and market information systems in each council, including market surveys and traffic flow assessment.
- To undertake Training of Trainers (ToT) courses for 42 commercial/community development officers of which 50% are women.
- To provide market management training to councils, MoLG/MTTI/MoWT staff, private operators and transporters. (216 person-sessions each of which will target at least 50% women participation).
- To provide gender and leadership training to councils and Vendors' Associations (VAS).
- To train vendors/VAs in entrepreneurship (42 person session) which will target at least 50% female participation; land-use, and environmental-green business (48 person-sessions);specialized training in improved slaughtering and hide processing, meat processing/preparation, live chicken dressing, fresh fish, food processing including fresh fruit/vegetables handling and agro- processing demonstration equipment; food safety, hygiene and quality control (4280 person-sessions).

Project activities

The project comprises 3 major components namely:

i) Market Infrastructure Development

ii) Market Management and Trade Enhancement

iii) Project management and Coordination

Market Infrastructure Development

This component involves the construction of new market structures which involves the total or partial demolition of the existing structures, most of which are considerably dilapidated. In some cases, where fairly new structures exist, having been installed recently under other initiatives, these are integrated into the new layouts wherever possible.

This component consists of two sub-components, namely: (a) Economic Marketing Infrastructure; and (b) Service Infrastructure.

a) Economic Marketing Infrastructure

Under this area, the Project provides sufficient space and enhances the design and layout of common market vending infrastructure such as lockups, stalls, and dedicated stalls for fresh fish and meat. Warehousing and wholesale facilities for the bulky goods and restaurants are also provided. The Project also provides space for private service providers such as Banks/microfinance institutions and clinics/pharmacies.

b) Service Infrastructure

This sub-component caters for improved access to health/safety services, environmental, electricity supply, market management office facilities and day care centres for children, whose mothers are vendors in the markets.

Market Management and Trade Enhancement

This component involves:

1. The creation of a well-functioning and efficient management and market information system for targeted beneficiaries of the project
2. Linkages with the agricultural development that is rural-urban marketing linkages
3. Capacity building and development to ensure effective planning and market management, improved business skills and entrepreneurship among the vendors

Project management and Coordination

This involves planning, management, coordination and implementation of project activities with a specific focus on addressing gender equality in accessing project benefits. This also involves providing technical assistance which includes gender training and mainstreaming.

Project Funding

By the time of audit (Jan 2014), the project had been funded to the tune of UGX 94.9 billion (Bn) as detailed in table 19 below:

Table 19 : Showing Total receipts from 2010-2013

Year/source	ADB Bn.UGX	BADEA	GOU Bn.UGX	Total Bn.UGX
2010/2011	2.9	0	0.8	**3.7**
2011/2012	31.4	0	0.4	**31.8**
2012/2013*	49.1	0	10.3	**59.4**
Total	**83.4**	**0**	**11.5**	**94.9**

Source: Audited financial statements *Draft financial statements

5.1.4 AUDIT OBJECTIVES

The overall audit objective was to evaluate the implementation of the infrastructure development component of the Project. The specific audit objectives were:

To ascertain whether:-

- The Market Infrastructure development component was properly planned to achieve the expected project objectives.
- The procurement of various civil works was undertaken in a manner that ensures the achievement of Value for Money.
- The civil works were executed in accordance with the agreed designs and specifications.
- The extent to which the completed structures have been put to the intended use.

5.1.5 AUDIT SCOPE

The study was carried out at the Ministry of Local Government (MoLG) headquarters and the seven selected markets under construction/redevelopment in the different districts. It focused on the Market Infrastructure development component of the project. The study covered three financial years namely, 2010/11, 2011/12 and 2012/2013.

5.1.6 AUDIT METHODOLOGY

Sampling

All the seven (7) markets so far redeveloped using the project funds were visited during the study. These include Wandegeya, Lira, Gulu, Mbale, Jinja, Hoima and Mpanga.

Data collection

The following data collection methods were used to gather audit evidence.

- Interviews
- Document review
- Observations or site inspection

Documentation review

The team obtained and reviewed documents relating to MATIP project to get an understanding of the operations of the project.

Interviews

A total of 30 interviews were conducted with various stakeholders including the PFT, consultants, contractors, urban authorities and the leadership of vendor associations to ascertain their role in planning and implementation of the project and the challenges faced.

Observation/Site Inspections

Seven (7) markets inspected to ascertain quality and progress work.

In order to address the objectives of the study, the following methodology was employed:

- **Assess whether the Market Infrastructure development component was properly planned to achieve the expected project objectives**

The audit team reviewed the project appraisal documents, implementation plan, feasibility study reports, detailed design reports and annual work plans and budgets. The purpose of the review was to establish the existence of set guidelines for planning and compliance with the guidelines.

Interviews were carried out with the various stakeholders to establish the actual process of planning and to confirm whether it was adhered to.

- **Assess whether the procurement of various civil work was undertaken in a manner that ensures the achievement of value for money**.

Interviews were carried out with the PFT to determine the process undertaken during procurement.

A review of the bidding documents and evaluation reports was carried out in order to establish whether the procurement process adhered to the set guidelines and was carried out in a timely and efficient manner.

- **Establish whether the civil works were executed in accordance with the agreed designs and specifications**

Document review of the works and consultancy contracts and progress reports were reviewed to ascertain whether works were carried out according to the specifications and within the set timelines. Payment certificates were reviewed to determine the value of works executed.

Field inspections were carried out during which quality tests were carried out on the works, finished works observed for conformity to quality specifications and measurements conducted to assess whether the quantity of works paid for were actually executed. Inspections were jointly carried out with the project managers and contractors' representatives.

The contractors' capacity in terms of human resources and equipment was assessed as well as the adequacy of the project managers' supervision.

- **To assess the extent to which the completed structures have been put to the intended use**

The completed markets were assessed for level of occupancy through interviews of the urban authorities and vendors, and through physical inspection of the spaces in the markets.

5.2 FINDINGS RECOMMENDATIONS AND CONCLUSIONS

MoLG has achieved significant progress in the implementation of the MATIP 1 project amidst a number of challenges. The project is in its 5th year of implementation and project funding increased from 3.7 billion in 2010/11 to 59.4 billion in 2012/13, an increase of 94%. Two (2) out of the seven (7) markets under redevelopment have been completed and handed over to the urban authorities.

It was also observed that there was a needs assessment and proper planning undertaken for the infrastructure development and the expected targets and timelines were clearly spelt out prior to implementation of the component. By the time of audit (February 2014),the physical progress achieved in respect to the seven markets was Wandegeya (100%),Mpanga(100%), Hoima (85%), Lira(90%), Mbale(90%), Gulu (62%) and Jinja (60%). However, this study has identified some areas that require improvement in order to steer the project towards achievement of its objectives and also inform better planning for future projects of this nature.

5.2.1 DELAYED COMMENCEMENT OF THE PROJECT

The Government of Uganda acquired loans from the African Development Bank (ADB) and Arab Bank for Economic Development (BADEA) to finance the (MATIP) programme. The African Development Bank agreed to fund the construction of seven (7) markets at a cost of (UA 38,000,000) while the Arab Bank for Economic Development (BADEA) agreed to fund the construction of two (2) markets at a cost of $10,000,000.

According to the time frames (milestones) in the appraisal report, the project was to commence in September, 2009 and end in September, 2014.

It was, however, noted that there were delays in commencement of the infrastructure development component which was attributed to the following factors:

- Delays in approval of the ADB loan which led to the extension of the loan effective date to 5th February 2010, eight (8) months after the date of signing the loan.
- Delays in procurement of consultants and contractors to undertake and supervise the civil works.

These delays resulted into low absorption of the loaned funds. To date, there have not been disbursements on the BADEA loan.

A review of the total cumulative loan disbursements from ADB at the end of each period revealed that there was low absorption of available loan funds ranging from 11.83% to 59.21% as shown in table 20 below.

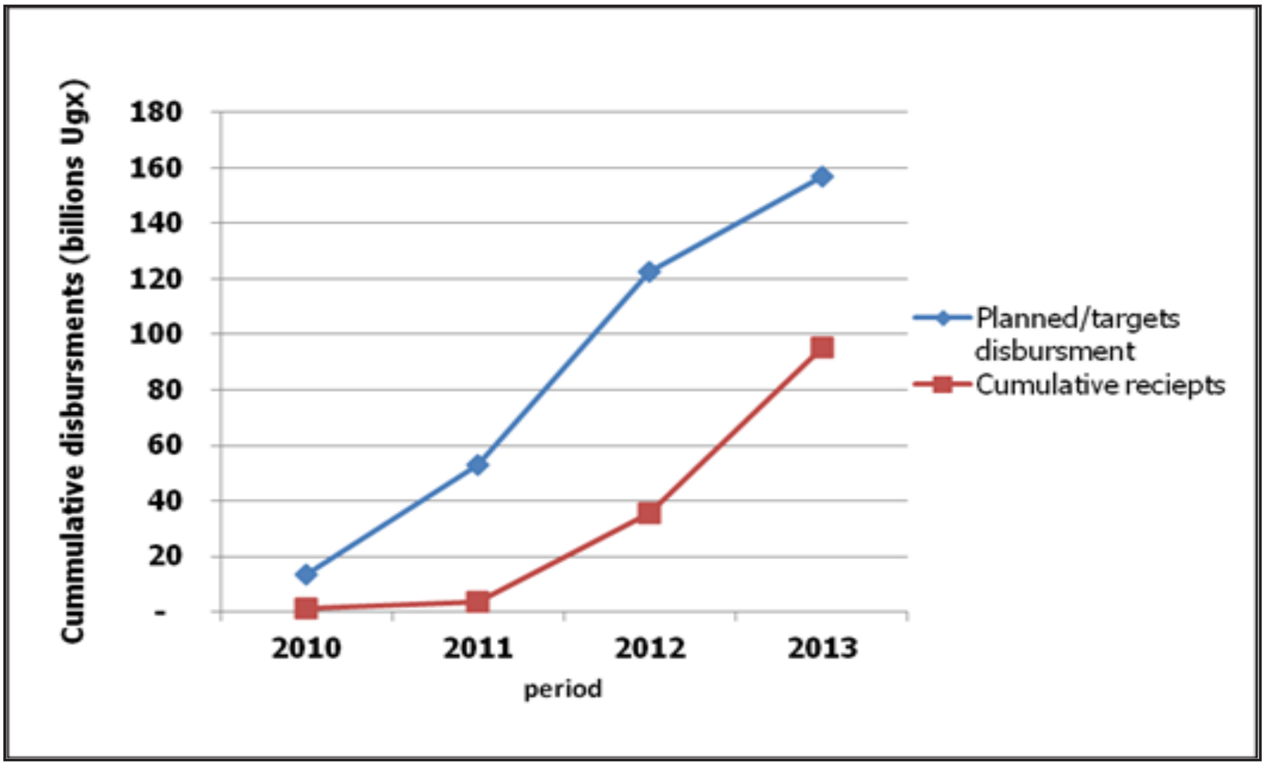
Table 20: Showing cumulative Loan disbursements

Period	2010	2011	2012	2013
Cumulative Target disbursement (UA'000)	4218.5	14610.8	32505.2	41337.4
Exchange rate	3208.49	3800.9	3885.27	3888.21
Cumulative target disbursement (UGX) bn	13.53	55.53	126.3	160.73
Cumulative Receipts (UGX) bn	1.06	3.74	35.6	95.18
Un disbursed loan amounts(UGX) bn	12.47	51.79	90.69	65.55
Disbursement as % of planned	11.83	6.74	28.19	59.21

Source: Project appraisal document and Audited Financial statements

As observed from Table 20 above, the cumulative receipts over the project period were less than target loan disbursements as anticipated at project appraisal as illustrated in figure 8 below;

Figure 8: Showing cumulative Loan disbursements over the project life



Source: Project appraisal document and Audited Financial statements

Management Response

Loan effectiveness is subject to a number of conditions including approval by parliament, opening of bank accounts, recruitment of specialized staff and confirmation that the completed structures would belong to Government. Compliance and adherence to all involves various stakeholders some of whom we have no control over, which eventually led to having the ADB loan becoming effective in February 2010.

The (BADEA) Loan required of the Government to secure Land as a pre-condition to the commencement of the construction of the markets. The project was delayed due to non-availability of Government-owned land in the selected markets. The search and acquisition of land was further complicated by the fact that some of the markets are operating in road reserves and vendors are unwilling to have the markets constructed elsewhere due to the business dynamics associated with location of markets. However, land for Busega and Nyendo markets was secured by Government albeit late affecting the disbursement status of the Loan. The Ministry will ensure fast-tracking of approval process for future loans where it will be the executing agency.

On delays in the procurement of consultants and contractors to supervise and undertake the works, this was hinged on the approval and effective dates of the loan and thus the overall start of implementation of programme activities. The consultants were procured immediately and the first contracts were signed as early as June 2010, four months after the effectiveness. To date the ADB loan is 74% disbursed and 94% committed.

The ministry is considering exploring advance contracting with the approval of funders for future projects to mitigate the time losses on procurements for works

Conclusion

Delayed commencement of the project affected timely implementation of the infrastructure development component and other project activities, which, in turn, has affected timely achievements of the project objectives; it also attracts commitment charges, which increase project costs.

Recommendation

MoLG should ensure that the processes of loan approval are expedited in time to avoid delays in project implementation. The ministry should expedite the process of land acquisition for the upcoming redevelopments under MATIP-2.

5.2.2 PROCUREMENT OF CONTRACTORS

Under statement of contract amounts

Section III (Evaluation criteria and methodology 1.2) of the PPDA act stipulates that all arithmetic errors in the bids should be corrected and the bid amounts adjusted accordingly.

It was observed that errors in the BoQs for Lira and Hoima markets were not corrected at the evaluation stage as shown in table 21.

Table 21 : Showing details of un-adjusted errors

Market	Bill Item	Erroneous Figure in BoQ Summary (UGX)	Corrected Figure by audit (UGX)	Error Amount (UGX)	Implication
Lira	No.2 for main market building	15,102,825,920	16,005,957,550	903,131,630	Net Understatement of the contract amount by UGX. 681,281,130
	No.3 External Works	1,473,289,500	1,251,439,000	(221,850,500)	
Hoima	Block H	576,975,231	690,320,167	113,344,936	Understatement of the contract sum by UGX.220,245,389
	Covered stalls (10No)	681,197,587	788,098,040	106,900,453	

Source: OAG: Bills of quantities for Lira and Hoima markets

The errors were due to posting of wrong figures from the individual item schedules into the General Summary. The existence of un-corrected errors in the bids is an indication that the financial evaluation of bids may not have been rigorously done and amounts to a violation of the PPDA Act and regulations. This anomaly resulted in under declaration of the final contract prices by UGX 901.5 million.

Management Response

All bids were rigorously checked for arithmetic errors except for the minor errors in the two. The bidders accepted the corrected bid prices by signing the acceptance letters before contract signatures and this did not in any way disadvantage any other bidder.

Audit Response

Because the contract is an admeasurement contract, it is very likely that the cost of these two markets will exceed the contract sums which will require mobilization of additional funds.

Conclusion

The actual cost of undertaking the redevelopment of the markets in question is likely to exceed the agreed upon contract amounts and additional funds may be required to complete the works.

Recommendation

MoLG should take the necessary steps to correct this anomaly and ensure that in future, bids are thoroughly checked for any arithmetic errors at bid evaluation.

5.2.3 AMBIGUITY IN SOME COST ELEMENTS OF CONTRACTS

The Standard Specifications for Building Works requires that whilst coming up with work rates; the bidders should include costs of labour and equipment.

In addition, the preamble to the BoQ (item 4) for Mpanga market also states that the unit rates in the bills cover supply of materials, delivery, transportation, preparation, installation, provision of labour, and testing of the works.

It was, however, noted that some costs assumed to be covered within the charged out rates were again charged under Preliminaries and General (P&G) sections of various BoQs resulting into unrealistically high amounts for P&G, a problem attributed to the manner in which the BoQs were structured in the bid documents. This is disadvantageous to the MoLG because they provide for payment of large sums of money for items that do not correspond to executed works on ground i.e. front loading. The practice poses a risk of loss of funds in the event of the contractor failing to continue with the works.

Table 22 below shows inappropriate costs treated as part of P&G in the contracts for the various markets, amounting to approximately UGX1.7 billion.

Table 22 Showing Ambiguous Costs

Market	Amount (UGX)
Gulu market	180,000,000
Wandegeya Market	227,060,000
Hoima market	280,175,434
Mpanga market	564,682,048
Jinja main market	40,950,000
Lira Central market	326,000,000
Mbale main market	50,000,000
Total	**1,668,867,482**

Source: OAG analysis of BoQs for various markets

In a related instance, it was observed that the BoQ for Jinja market has a cost of UGX 4,550,000 against a provisional sum on item 1.54 ("testing of materials other than concrete cubes") which the bid document limited to UGX 3,000,000.

Management Response

The tenders were secured through an open competitive bidding process. The specific items cited in the Audit report were part of the Statement of Requirements in the bid document for which bidders were required to tender for (submit a price quotation) in accordance to Standard Specifications for Building Works and also the Standard Bidding Documents for Works by the Public Procurement and Disposal of Assets Authority (PPDA) as also reviewed at international standard by FIDIC.

Audit response

All direct, indirect and overhead costs plus profits should be captured within the charged out rates by contractors. The P&G should include only relevant items that cannot be included in the work rates.

Conclusion

There is a possibility that some items could have been charged twice by the contractor both under P&G and the charged out rates.

Recommendation

MoLG should standardize the preliminaries and general items in the bid document.
The works bid should be properly crosschecked for conformance to bidding instructions.

5.2.4 DESIGN OF THE MARKETS

Fitness for Purpose

Good designs and layout of structures should serve the purpose for which the structure is designed and constructed.

It was noted that the designs for some of the sections in the various markets do not support the purpose for which the structures were constructed as noted in Table 23 below;

Table 23 Showing designs gaps for various markets

Market	Remarks
Gulu Market	The parking area also doubles as a play area for the children The day care centre is small and has no provision for a resting room The restaurants are too small and lack kitchen space. The balconies facing the church were too narrow to handle the expected human traffic and movement of merchandise
Lira Market	The slopes of the floor area under the voids does not allow for drainage of rain water into the side drains
Mbale Market	The butchery areas have not been provided with adequate display and secure storage area. The working surface of the butchery was finished with tiles which are not appropriate for the purpose.
Mpanga Market	Adequate sloping not provided for the open pitches. The storm water does not drain away from the area when it rains
Hoima Market	The area for the chicken stalls and the matooke vendors has been left exposed to rain and sunshine.
Wandegeya Market	The sizes of the lock ups are not adequate to accommodate the merchandise of the vendors. All the lock ups were the same size irrespective of the purpose. The walls for the lock ups do not extend up to the ceiling putting vendors merchandise at risk.

Source: OAG field inspection

The design gaps were partly attributed to the need to accommodate more vendors which led to reduction in the lock up sizes and lapses by the consultant in addressing vendor needs at design stage.

This may affect the utilization of the facilities since these inadequacies negate the purpose for which the facilities were constructed. For instance, at the time of the audit inspection, a large number of stalls in Wandegeya market remained un-occupied by vendors.

Management Response

A feasibility study was done for all the markets followed by a scientific needs assessment for each market by a consultant.

All markets were designed to fit the purpose after the needs assessment. The highlighted concerns are not of design nature and will be studied for solutions and where feasible, procedures will be put in place to address them. The facilities serve the purpose for which they were constructed.

Audit response

The issue raised is not to do with feasibility study or user needs assessments which were done. What is at stake is the design of some facility does not serve the purpose for which it was put up because of size, location and finishing.

Conclusion

The inadequate designs of the markets may result in low levels of occupation of the constructed facilities by the vendors.

Recommendation

The project implementation team should ensure that these inadequacies in the designs are addressed for the sites which have not yet been handed over and for future markets, a design review should be carried out taking into account lessons learnt during the implementation of MATIP 1.

5.2.5 MARKET FACILITIES PROVIDED

The project appraisal document states that the market infrastructure component of the project aims at reconstructing markets to provide economic infrastructure such as lockups, stalls, meat/fish units, cold storage units, restaurants, pharmacies, clinics, banking halls conference halls, market management offices.

During field inspections, it was noted that a number of facilities were left out during the redevelopment of some of the markets as detailed in Table 24 below.

Table 24 Showing Missing facilities in various markets

Market	Remarks
Gulu market	No Conference hall
Wandegeya Market	No Conference hall
Hoima market	No cold rooms
Mpanga market	No pharmacy, no clinic, no banking halls

Source: OAG field inspections

The failure to include all facilities as planned was attributed to the need for more working space raised by the vendors during construction which forced the project managers to make a trade-off for some of the facilities approved in the designs.

This is contrary to the project objective of ensuring that the new markets avail adequate space for provision of both commercial and non-commercial services to the vendors such as health care, management of the market, and easy access to financial services.

Management Response

There was a feasibility study report for all markets which was used for the general overview of facilities required for markets at appraisal.

At implementation, the consultants came up with scientific needs assessments for specific facilities for each market site basing on relevance. Where a facility was not designed, alternative provisions for the same were made including quadrangles and open spaces for conference halls.

In some sites, the facilities were dropped considering the proximity of similar facilities to the market site for example, banks and clinics. In addition, during implementation at specific sites, some facilities were removed due to demand by the users for more lock ups and stalls to accommodate more vendors, so the designs were modified to the project end users satisfaction.

It should be noted that all essential facilities including sanitation, walk ways and work facilities were adequately provided for in the designs.

Conclusion

The absence of all the facilities envisaged at project inception and design implies that the redeveloped markets have not adequately addressed the project objective of improving market place economic and social infrastructure and hence reducing the extent to which government's objective of enhancing vendor incomes and ultimately reducing poverty will be achieved.

Recommendation

For future projects, the project implementation team and the project manager should ensure that all facilities provided for at design are constructed in order to achieve the project objectives.

5.2.6 CONTRACT MANAGEMENT

Capacity of the Project Managers

The consultancy agreements signed between MoLG and the consultants require the consultants to design and supervise the redevelopment of the markets. In addition, the agreements require that at all times the supervisor shall be represented on site by a resident engineer and a clerk of works.

During inspections, it was noted at three (3) of the seven (7) sites that critical supervision staff were not resident on site as summarized in Table 25 below.

Table 25 showing list of missing consultant staff

Market	Critical staff absent	Remarks
Gulu	Clerk of works and resident engineer	Works at critical construction stage e.g. the casting of beams and slabs for the extension without supervision.
Lira	Clerk of works and resident engineer	The consultant is no longer on site full time before completion of works.
Hoima	Clerk of works and resident engineer	The consultant is no longer on site full time before completion of works.

Source: OAG analysis of attendance register of visited sites

Absence of these critical staff during execution of work implies that there are no checks and balances to ensure that works conform to the quality specification required in the contract agreements. This may also lead to unnecessary delays in progress of works in the event that the consultant has to approve variations and valuation of works.

Management Response

The selection of the consultants (Project Managers) was competitive and rigorous to ensure we engage the best in the industry. Management has noted the audit finding and appropriate action will be undertaken accordingly.

Conclusion

Without adequate supervision, the contractor may not execute works according to the specified quality standards which may hamper the quality of the construction works of these markets.

Recommendation

The MoLG (PFT) should ensure that the project managers adhere to the conditions of contract; and in case of non-conformance, penalty clauses should be invoked.

5.2.7 SUPERVISION OF WORKS BY THE CLIENT

Besides appointing a project manager, MoLG is required to supervise the project as well as approve changes in contract costs and timelines. This is to ensure that the project is implemented timely and in accordance with the contract. This requires representatives from the Ministry to attend monthly site meetings and review progress reports.

However, a review of minutes of the site meetings for the Lira market revealed that MoLG was not represented at five (5) of the site meetings held in 2013. According to the site contractor, there were also delays in approval of additional works by MoLG which exceeded 6 (six) months in some cases. The delays were further manifested in the issue of modifications to the works after the works have already progressed resulting into demolitions. For instance, block works for the Lira market were demolished in order to create more lockups which resulted in a loss of UGX.6.6 million in construction and demolition costs.

Management Response

Appropriate action will be undertaken accordingly. Additional staffs have been brought on board to step up the supervision of works.

Site meetings are organized by the project managers who are the supervisors of the works on all sites and act as agents of the client. The meetings are attended by other stakeholders including urban council leadership, vendors' representatives, district officials and ministry officials who all have interest.

In instances where the contract manager is unable to attend, the minutes that are distributed are used to facilitate further decisions and processes. It should be noted that not all issues are resolved at site meetings.

Audit response

The audit noted that the ministry officials were not represented in some meetings as indicated in the finding. It is true that not all decisions are resolved at site meetings but joint discussions pave way for quicker decision making.

Conclusion

The failure by MoLG representatives to attend site meetings affected the timeliness of decision making. Delays in approvals for works led to general delays in the progress of work and may attract additional costs in form of claims for extra time.

Recommendations

The Ministry of Local Government should:

- Ensure timely approval and issue of modifications for works and/or additional works in order to facilitate timely execution of works
- Endeavour to attend site meetings for effective contract management.

5.2.8 QUANTITY VERIFICATION

Special Conditions of Contract specify that payments for works should be commensurate to the works executed (Admeasurement Contracts).

During field inspections, measurements were undertaken and compared with the certified quantities of various bill items. It was established that payments were made in excess of quantities executed by UGX 756,177,398 on various markets as shown in Table 26**.**

Table 26 Showing excess payments for civil works

S/N	Market	Contractor	Total over Payment UGX
1	Gulu Market	DOTT services	17,376,520
2	Wandegeya Market	Complant	138,834,210
3	Hoima market	Amugoli General Enterprises	504,788,369
4	Mpanga market	Excel construction	10,098,481
5	Jinja Market	Vambeco	70,297,500
6	Lira Market	Arab contractors	2,550,000
7	Mbale Market	Ambitious Construction	12,232,318
	Total		**756,177,398**

Source: OAG analysis of quantity of works executed and payments.

The overpayments were partly attributed to inadequate supervision by contract supervisors which led to certification of incorrect values of works executed.

Management Response

There were no overpayments to the contractors as per findings on respective sites. A ground verification exercise can be done to reconfirm the measurements. All the contracts have not been valued beyond the agreed and signed contract value

Audit response

The evidence provided shows the quantities paid which are different from those verified through field measurements.

Conclusion

The project managers certified excess quantities than those executed that resulted in overpayments of UGX 756,177,398**.**

Recommendations

MoLG should:

- For on-going contracts (or those still under defect liability period), recover the amounts paid in excess of works executed from subsequent payment certificates.
- For future contracts, step up contract supervision to ensure agreement of certified works with executed quantities before payments are made.

5.2.9 QUALITY OF WORKS

The contract specifies the quality of work required by way of specifications (General and Particular) in reference to every item in the BoQs.

During inspections it was noted that for all the seven sites visited the works executed were still visually holding well. However, some defects were identified on some elements as detailed in Table 27 below.

Table 27 Showing Quality of executed works

Market	Quality deficiency Observed
Gulu market	Cracks were observed in floor screed
Wandegeya Market	Cracks were observed in sections of the terrazzo floor in the south wing Leakages in the pipes for the wash hand basins in some toilets and meat handling area.
Mpanga market	Cracks in the floor screed of some lock ups were observed. Some leakages observed in the flexible connectors in the toilets.
Jinja main market	Honey combing was observed on column in the second quarter of the ground floor.
Lira Central market	Hairline cracks in some areas of terrazzo finish of copings over the dwarf walls into which the hand rail is embedded Cracks on newly cast concrete over the culverts. Broken non slip timber embedded in the terrazzo finish on the ramp
Mbale main market	Cracks in the floor screed, wall plaster and ceiling finishes were observed in some lock ups.

Source: OAG field inspections/observations

The quality deficiencies were attributed to poor workmanship in finishes and lapses in contract supervision during execution.

The team conducted Schmidt hammer tests on six (6) of the seven (7) markets to confirm if the strength of concrete used for the works meets the strength parameters specified in the contract. The results of the tests are summarized in Table 28 below.

Table 28 Showing results of tests on Concrete works

Market	Test result
Gulu market	Pass
Wandegeya Market	N/A
Hoima market	Pass
Mpanga market	Pass
Jinja main market	Pass
Lira Central market	Pass
Mbale main market	Pass
Gulu market	Pass

Source: OAG analysis of Schmidt hammer test-results.

Management Response

Quality test for works were carried out on all the critical stages of these project for key and all major structural component as a control measure.

Since major tests carried out on all sites passed, we note that the concerns raised are non-structural defects, but minor cracks which will be addressed in the defects liability period for complete works, and for on-going works, they will be corrected before handover.

Conclusion

Although the concrete strength was found adequate, other quality deficiencies were observed and these affect the life span of the structure

Recommendation

For facilities still under defects liability, the contractor should correct the defects to avoid further deterioration of finished works. In cases where the works are on-going, these defects should be rectified before handover of works to the client.

5.2.10 DELAYED COMPLETION OF THE MARKET INFRASTRUCTURE

Whereas the construction of markets was scheduled to be completed by 3rd October 2013, only two markets out of seven had been completed by February 2014. The delays are attributed to a number of factors which include:

a) Delayed Payment of GoU Counterpart funding

Section 2.5 of the project appraisal report[86] requires Government of Uganda (GoU) to contribute UA 4.22 million (USD 7.8m) to the project for financing operation and management (O&M) of markets; salaries of council and other government experts involved in supervision and capacity building as well as provision of training halls and office space. The government contribution was also meant to cater for duties and taxes.

It was, however, noted that accumulated VAT from various certificates amounting to UGX 8,130,726,581 was still outstanding to the contractors as of November 2013 as shown in Table 29 below;

Table 29 Showing outstanding VAT to contractors

Contractor	Market	Amount Outstanding(UGX)
Dott services limited	Gulu Market	474,469,702
Dott services limited	Gulu Market (extension)	150,598,549
Complant	Wandegeya market	1,289,871,820
Amugoli General Enterprises Ltd	Hoima market	495,145,981
Excel contractors limited	Mpanga market	812,327,311
Vambeco enterprises limited	Jinja Market	1,500,272,215
Arab contractors limited	Lira Market	1,759,830,302
Ambitious construction ltd	Mbale market	1,648,210,701
Total		**8,130,726,581**

Source: MoLG draft financial statements for 2013/14

From interviews with the various contractors it was noted that the failure by GOU to pay the outstanding VAT to the contractors greatly affected the contractors' cash flows and capacity to complete the projects in time.

Management Response

It is true the government has not met its outstanding tax obligations timely. A request for supplementary funding has been made to the Ministry of Finance for the outstanding VAT to contractors. The outstanding balances are due for verification by the Uganda Revenue Authority before the approval is granted.

Conclusion

Failure by Government to meet its outstanding tax obligations has caused delays in execution of works and as a result affected the timely achievement of project objectives. It also attracts interest on delayed payment; so far about UGX1.5bn has been claimed by various contractors.

86 MATIP appraisal report Jan 2009 pg. 4

Recommendation

The GoU through MoLG (the implementing Ministry) should endeavour to effect payments to the contractors in accordance with the loan agreements.

b) Uncharged liquidated damages

The special conditions of the contracts signed between the contractors and the MoLG clearly spell out the completion periods of the various projects. In case of delay the General conditions of the contract spell out the liquidated damages chargeable from the contractor.

It was noted that Hoima market was not completed and handed over on schedule as required by the contract agreement. In addition, liquidated damages amounting to UGX 58,126,196 due from the contractors have not been charged.

The delayed completion of works denied the market vendors and other project beneficiaries timely utilisation of the envisaged project benefits. Charging of liquidated damages is intended to make the contractor accelerate work progress and to compensate the client for the benefit lost as a result of delayed completion.

Management Response

The contract for Hoima market is substantially complete and arrangements for commissioning and handover are underway. The contract still has retention amounts against which liquidated damages may be charged if all clauses are invoked.

Contract implementation was partly delayed because of delayed remittance of VAT to the contractor which imparted on the cash flows.

Recommendations

The contract managers should:

- Adhere to the contract provision in order to ensure proper contract management.
- Ensure that the liquidated damages are recovered from subsequent payments to the contractor.

5.2.11 UTILIZATION OF THE COMPLETED MARKETS

The project implementation guidelines stipulate that the original vendors should access and relocate to the new markets upon completion of the redevelopment.

During audit, it was noted that redevelopment works for two (2) of the markets, that is, Wandegeya and Mpanga were substantially completed and the markets had been handed over to MoLG by the time of audit (February 2014). The markets however remained partially occupied and un-occupied respectively due to a number of reasons as noted in Table 30 below.

Table 30 Showing utilization of Completed Markets

Market	Date of hand over	Status occupation by January 2014	Reasons for status
Mpanga market	2/12/2013	Un occupied	By the time of audit the allocation committee had not yet been constituted to allocate the vendors. Disagreements between Municipality and vendors over fees payable.
Wandegeya market	7/10/2013	Partly occupied	This was partly attributed to the small working spaces which could not accommodate the merchandise of some vendors Disagreements between KCCA and vendors over fees payable.

Source: OAG analysis of oral representations by vendors

The non-occupancy of the markets has hindered the identification of defects during the defects liability period rendering the timely correction of defects by the contractors difficult. For the case of Mpanga market, the Municipal council is incurring monthly site cleaning costs of UGX 19,000,000 yet no revenue is being collected from the market.

Management Response

The Wandegeya market has two wings of which the southern wing is steadily and gradually picking up with vendors but the northern wing which has mainly food vending still has low occupancy because the vendors have not yet acquired the recommended eco stoves for use in the market. KCCA has pledged financial support to the vendors to help them acquire the stoves.

Due to the zoning of the market and categorization of vendors, some vendors are re-orienting themselves with the market while landlords are still looking for tenants to trade in their facilities.

The issue of rates was amicably resolved in a meeting with the KCCA executive, MoLG and members of vendors' leadership who concurred that the rates were fair thus not a major reason for non-occupancy.

In Mpanga market, the allocation committee was constituted at the beginning of March 2014 and the allocation process started on March 12, 2014. The vendors are expected to move into the market after receipt of allocation letters. There were also conflicts in the market arising out of demand for facilities which hindered the timely implementation of the vendor relocation process

Conclusion

Non-utilization of the constructed facilities defeats the objective for which the structures were put in place.

Recommendation

The project facilitation team and the respective Local Governments should ensure that the completed facilities are occupied whenever they are handed over in order to achieve the program objectives.

OVERALL AUDIT CONCLUSION

The development of infrastructure under MATIP has been carried out for all the seven (7) markets as agreed in the revised project plan. Two of the seven markets have been completed and handed over and works in all the markets are of good quality. The progress of works in the remaining markets is between 70- 95%.

Therefore, the programme objective of rehabilitation of market infrastructure has been achieved to a great extent.

The shortcomings identified regarding the management and supervision of the construction process as evidenced by delays and certification of excess quantities of works for payment should be addressed through strengthening project supervision.

6

6.0 MANAGEMENT OF LOAN PORTFOLIO BY THE MICROFINANCE SUPPORT CENTRE

6.1 INTRODUCTION

6.1.1 BACKGROUND TO THE AUDIT

Microfinance Support Centre Ltd (MSC) is a government owned company incorporated in 2001 as a company limited by guarantee and is governed by a board of directors. MSC was incorporated to offer affordable, sustainable and convenient financial and business development services to active and productive Ugandans by extending credit and business development services to registered institutions engaged in agricultural value chain production, processing and marketing. These include Savings and Credit Cooperative Organisations (SACCOs), Area Cooperative Enterprises (ACEs), Microfinance Institutions (MFIs), Cooperative Unions and Small and Medium Enterprises (SMEs).

6.1.2 MOTIVATION

The Government of Uganda in a bid to realize the "Prosperity for All" Vision (2006) initiated the Rural Financial Services Strategy (RFSS) implemented under the Department of Microfinance in the Ministry of Finance Planning and Economic Development (MoFPED). The aim was to ensure sustainable delivery of affordable financial services to Ugandans so as to achieve prosperity and enhance socio-economic transformation. In light of this, the Government recognized microfinance as a vital tool in poverty reduction and set up the Microfinance Support Centre under RFSS in 2001, with an objective of facilitating access to affordable and sustainable financial services.

While financial inclusion is critical for social & economic advancement, overall access to financial services in Uganda is still low and mainly concentrated in urban areas. According to a National Survey on Demand, Usage and Access to Financial services in Uganda in October 2010, only 28% of the adult population had access to formal financial institutions, while 7% had financial access through other institutions such as MFIs and SACCOs.

The study also indicated that usage of banks in the urban areas was 38% of the urban population and in the rural areas only 15% which ratios are still very low.[87]

For the period under review, FY 2009/10 to F/Y 2012/13[88], GoU invested UGX63.08 bn into the MSC for wholesale lending and operations.

Through a review of the financial affairs of MSC, the Auditor General in his financial audit reports for the FY 2010/11 and 2011/12 noted that loan agreements were not being complied with, loan disbursement

87 'Fin scope Uganda 2009'- Report October 2010.

88 Audited Financial Statements for MSC for 2009/10-2012/13

procedures were being flouted and many MSC clients failed to repay their loans.[89]

In addition, the Auditor General's Special audit report on the Presidential Initiative on Market vendors and Small business Operators Fund highlighted shortcomings like disbursement of funds to non-existing markets in the management of the fund for which MSC was the implementing body.[90]

Furthermore the IGG, in her report dated 24th January 2012, on the operations of the Microfinance Support Centre Ltd, noted the irregular appointment of the Executive Director and interference of the board and chairperson in the management of the company affairs.[91]

Based on the issues noted above, the Office of the Auditor General (OAG) found it necessary to undertake a value for money audit on the management of the loan portfolio by the Microfinance Support Centre.

6.1.3 DESCRIPTION OF THE AUDIT AREA

The Government of Uganda initiated the Rural Financial Services Strategy (RFSS) which is one of the pillars of the Prosperity for All Programme (PFA) aimed at expanding rural financial services. The RFSS implemented under the Department of Microfinance in the MoFPED has two arms: Capacity building for SACCOs and Wholesale credit. The capacity building support and establishment of a rural financial service infrastructure with Savings and Credit Cooperatives (SACCOs) as the main vehicles of financial service delivery is implemented by the Rural Financial Services Programmeme (RFSP), while wholesale credit is implemented by the Microfinance Support Centre.

Mandate

The mandate of the Microfinance Support Centre is, "To offer affordable wholesale credit and business development services to registered financial service providers.''

Vision and Mission statement

The Vision of MSC is: "An economically transformed society''

The Mission of MSC is: ''To facilitate access to affordable, sustainable and convenient financial and business development services to active and productive Ugandans.''

Specific Objectives

The objectives of MSC are to;

i. Enhance the capacity of MSC to deliver rural financial development services.

ii. Maximize outreach and deliver demand driven credit.

iii. Expand and deepen financial outreach through increased collaboration and synergy between key players in rural development.

iv. Enhance productivity and performance of rural enterprises.

Funding

The Microfinance Support Centre Ltd is funded by the Government of Uganda and the African Development Bank (ADB). Details of funding by source are summarized in Table 31 below:

89 Auditor General's Report f/y 2010/11&2011/12

90 Auditor General's Special audit report on Presidential Initiative on Market vendors and Small Business Operators Fund – 5th October 2012

91 IGG Report on Investigation at MSC-24th January 2012.

Table 31: MSC Funding

FY	2009/10 (UGX'bn)		2010/11 (UGX'bn)		2011/12 (UGX'bn)		2012/13* (UGX'bn)	
Source	**GoU**	**Donor**	**GoU**	**Donor**	**GoU**	**Donor**	**GoU**	**Donor**
Credit Fund	1.16	-	-	14.98	-	16.4	-	16.4
Operating Fund	1.27	-	2.57	0.37	4.18	0.64	4.85	0.26
Total Funding	**2.43**		**17.92**		**21.22**		**21.51**	

Source: MSC audited financial statements FY2009/10-2011/12, FY 2012/13(Draft)

6.1.4 AUDIT OBJECTIVE

The overall objective of the study was to assess the management and delivery of credit and business development services by MSC.

The specific audit objectives were;

i. To assess the extent to which the Microfinance Support Centre provides credit services to eligible clients taking into account:

a) whether MSC conducts adequate due diligence and appraisal of its clients

b) Whether the MSC loan committees approve loans within the specified approval limits and in a timely manner.

c) Whether MSC conducts adequate monitoring and tracking of Loans disbursed to clients.

d) Whether MSC ensures that loan repayments, loan recovery and loan write offs are in accordance with the stipulated guidelines.

ii. To establish whether the capacity building gaps of clients are identified and filled.

6.1.5 AUDIT SCOPE

The Audit focused on MSC's capacity to deliver rural financial services, and management of the loan portfolio in the four financial years from FY 2009/10 to FY 2012/13.

6.1.6 AUDIT METHODOLOGY

Sampling

Five out of the twelve zonal offices were selected for review based on stratified random sampling (geographical representation).The country was divided into 4 regions;northern, eastern,western and central. The zonal offices of Kabarole, Mbarara, Soroti, Gulu and Kampala were then selected to represent each of the regions.

A total of 32 clients were selected from these zones categorised into SACCOs,MFIs and SMEs.The clients were selected based on purposive sampling. A number of factors were considered such as loan amounts received and performance levels

Data Collection Methods

The methods used for collecting data included: document review, interviews and physical inspections.

Document Review

Documents such as MSC loan portfolio ledgers, client files, zonal office reports and others were reviewed to obtain an understanding of the operations of the loan scheme.

Interviews

51 interviews were conducted at the various entities, namely: Microfinance Support Centre Ltd Headquarters, the selected Zonal offices, MFIs, SMEs and SACCOs to assess the operations of the credit scheme and its management and to corroborate the information obtained from the other sources.

Observation/ Field inspections

MFIs, SMEs and SACCOs from the five zones selected were visited to understand the operations of the zones and verify their existence.

6.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In this section, findings on the loan portfolio management by the microfinance support centre are presented in reference to the audit objectives.

Achievements

Audit notes the achievements of MSC by managing to reach out to all sub counties in the country as was set out in the design of the scheme, developing a number of loan products to cater for the various client segments, thus further enhancing its ability to reach out to all categories of its clientele and strengthening its staff capacity to deliver services by offering them specialized training programmes. However, the following areas were identified for improvement:

6.2.1 APPRAISAL OF SPECIAL LOAN PROGRAMMES

According to the Operations Manual, all special loan programmes implemented by MSC on behalf of any stakeholder should have a Memorandum of Understanding (MoU) signed between MSC and the concerned stakeholder stipulating the terms and conditions under which such a programmeme will be implemented.

It was observed that loans under special programmes totalling to UGX 7.6 billion were paid out to clients without signing MoUs. It was therefore difficult to ascertain the terms and conditions under which these loans were disbursed.

A review of the loan files, revealed that the beneficiaries under the special programmes were not subjected to the process of appraisal and due diligence. As a result, the SAACOs that benefited under this arrangement have defaulted and are in arrears past the recommended 270 days. In the zonal offices visited it was observed that the majority of the SAACOs that benefited have either closed down and sign-posts removed or open once in a while, therefore making it very difficult for the Zonal credit loan officers to track and recover these loans. For example, in Kampala Zone, UGX 2bn was disbursed to clients under the special outreach programmes and the SAACOs that benefited under this arrangement have defaulted and failed to pay UGX 900 million and thus a high likelihood that these loans will not be recovered.

Management Response

In future efforts will be made to sign MOUs with stakeholders of the special programmes detailing out the terms and conditions for implementation. It should be noted that most of the clients under special programme were appraised and due diligence made although it was not rigorous compared to the other clients identified normally.

Conclusion

Failure to screen and appraise clients under special programmes has led to MSC's failure to recover loans disbursed and a poor loan portfolio performance. As a result, instead of expanding outreach to new clients, MSC is focusing on recovery from the defaulting clients.

Recommendations

- In future, MSC should sign MOUs with the stakeholders of special programmes which should make it mandatory for all clients to be subjected to the rigorous MSC due diligence procedures that are similar to those all other clients are subjected to.
- MSC should take all necessary measures to recover the loans in default under the special programme.

6.2.2 MONITORING AND TRACKING OF LOANS

Section 4.16 of the MSC operations manual requires that once a loan is disbursed, regular follow up should be undertaken by the credit department and the zonal office to ensure that a client's loan remains on track and measures taken before the loan goes bad. The zonal office has to submit monthly reports to MSC head office showing the performance of each loan.

Audit visits in the five zones (Kabarole, Mbarara, Soroti, Gulu and Kampala) revealed that whereas monthly reports are submitted to MSC head office, there is inadequate follow up of clients and technical assistance in the area of loan tracking by MSC credit staff.

It was further established that there were instances of poor record keeping by SACCOs for example loan ledgers not being maintained hence making loan follow-ups difficult. This was seen in 80% of the SACCOs visited. Where monitoring visits were done, there was no formal feedback and guidance in form of reports or action points for improvement to the clients.

Although one of the causes of inadequate monitoring was the limited staff structure, which provided for two credit managers at MSC headquarters overseeing twelve zones countrywide and two credit staff at the zonal offices covering thirteen districts on average, this study also established that there were instances where officers were not visiting clients. In Fort Portal zone, officers were requisitioning for funds to visit up to 8 SACCOs but visited only 3. There were also instances in Kabarole and Mbarara (Isingiro, Rubirizi) offices where SACCO managers were collecting funds from their clients/borrowers and not meeting their repayment obligations to MSC and these were not being followed up by MSC.

This has resulted into a high default rate by MSC clients putting the MSC loan portfolio at a risk far above the set target.

Management Response

- A new company structure has been approved by the board. So far 10 Credit Officers were recruited in July 2013 which beefed up the ZOs to be able to regularly follow up clients. In instances where the clients are not visited at least once a quarter, it is as a result of the staff finding the clients offices closed because of not opening regularly especially with clients in default.
- There is a clear monitoring and tracking system specified in the Operations Manual.

Audit Response

The additional 10 credit officers recruited were factored in computing the average number of 2 credit staff per zonal office. The situation was thus worse off prior to July 2013. Although this recruitment is marginal compared to the area of coverage, it could enhance the monitoring function. In addition, although there is a monitoring and tracking system in the manual, it is generic since it does not specify the type of information to be gathered, type and contents of reports, feedback and action points.

Conclusion

There is no comprehensive monitoring system on the performance of the Portfolio leading to a drastic rise of the portfolio in default.

Recommendation

- MSC management should facilitate the credit department and the zonal offices to ensure monitoring and tracking of loans.
- The monitoring and tracking system should specify the type of information to be gathered, type and contents of reports, feedback and action points.

6.2.3 LOAN DEFAULTS

The agreements signed by MSC with individual clients provide that, borrowers should make loan repayments in accordance with the loan repayment schedule. The MSC Strategic Plan 2009-2014 set a target of maintaining the repayment rate at 95% implying that the management's expected default rate was to be 5%.

It was established that the default rate was at 38% and the repayment rate at 62% which was below the target of 95% as shown in Table 32 below:

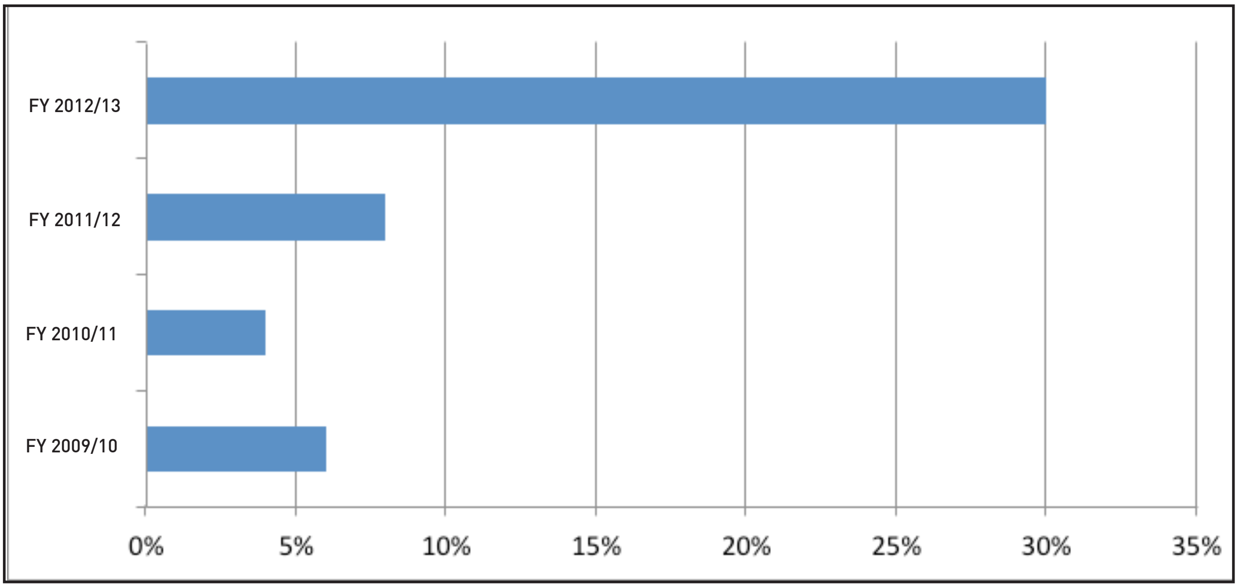
Table 32: Default Rate

Total portfolio with arrears (UGX)	Total outstanding loan balance (UGX)	Actual Default Rate	Target	Variance (Actual-Target)
18,396,450,657.92	48,537,984,176.98	38%	5%	33%

Source: OAG Analysis of Aging Report of Outstanding Loan PAR as at 30.06.2013

The portfolio ageing report as at 30th June 2013 further showed that the value of outstanding loan balance (principal only) with arrears greater than 90 days increased drastically from 8% to 30% between FY 2012 to FY 2013 as shown in Figure 9 below:

Figure 9: Graph showing percentage of PAR past 90 Days



Source: OAG Analysis of MSC Loan Portfolio Ageing report as at 30.06.2013

High defaults were attributed to the MSC practice of lending to SACCOs which are considered to be the most risky given that they do not provide security and yet constitute the majority of MSC clients. As at 30th June 2013, out of the cumulative amount of disbursed loans of UGX142 billion, SACCOs constituted 82% of the total clients and 54% of the value of the portfolio[92].

The reasons for MSC clients defaulting on their loans were further analysed using a sample of 424 delinquent loans. The analysis revealed that cash flow and liquidity problems were the major causes of defaults as shown in Table 33 and Figure 10 below:

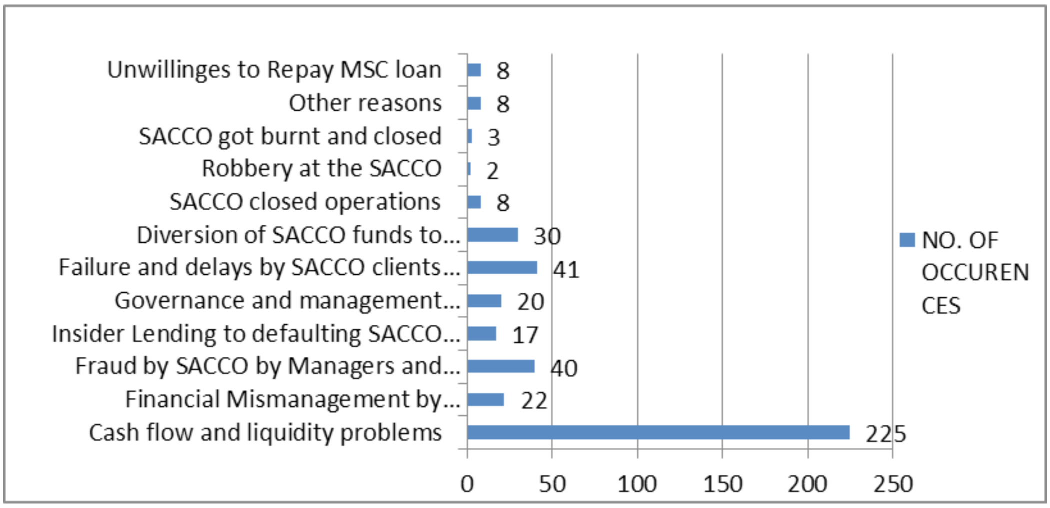
92 MSC 18th Progress Report (April –June 2013)

Table 33: Causes of Loan Defaults and the Amounts Involved

	Cause	Principal In Arrears (UGX)	Interest in Arrears (UGX)	Total Arrears (UGX)	%Age
1	Cash flow and liquidity problems	3,632,618,598	327,317,887	3,959,936,485	51%
2	Financial Mismanagement by SACCO Managers	241,263,432	78,340,918	319,604,350	4.1%
3	Fraud by SACCO Managers and board	441,066,316	137,424,990	578,491,306	7.4%
4	Insider Lending to defaulting SACCO board members	143,190,830	14,683,456	157,874,286	2.0%
5	Governance and management problems	137,630,378	13,475,956	151,106,334	1.9%
6	Failure and delays by SACCO clients to repay loans	1,162,967,647	58,794,734	1,221,762,381	15.7%
7	Diversion of SACCO funds to unproductive ventures	362,689,114	76,904,269	439,596,083	5.7%
8	SACCO closed operations	135,072,816	16,298,909	151,371,725	1.95%
9	Robbery at the SACCO	5,587,342	0	5,587,342	0.07%
10	SACCO got burnt and closed	60,736,826	9,588,526	70,325,352	0.9%
11	Other reasons	473,443,941	102,822,127	576,266,068	7.4%
12	Unwillingness to Repay MSC loan	125,681,347	7,992,226	133,673,573	1.7%
		6,921,948,587	**843,643,998**	**7,765,595,285**	**100.0%**

Source: OAG Analysis of Status report for Delinquent loans

Figure 10: Graph showing causes of loan defaults



Source: OAG Analysis of MSC Loan Portfolio ageing report as at 30.06.2013

Management Response

An amendment of lending policies with a view to minimize unsecured loans was done in the current Operations Manual, 5th Edition , November 2013. For example, SACCOs borrowing above UGX. 100M have to provide physical assets with certificate of ownership to secure the loans.

In addition, since 2009, MSC has broadened its clientele from SACCOs only to include SMEs and other Cooperative Societies and Unions who are required to provide physical assets to secure the loans.

The capacity building of SACCOs has to be continuous because it is difficult to ensure that the staff and executive committees trained are retained by the SACCOs due to the high staff turnover in the SACCOs and the duration for the executive committee which is limited to two years renewable only once. MSC has not been supported with the required resources to be able to provide such capacity building support. Government should avail to MSC part of the funds for Capacity Building of SACCOs.

Audit response/Conclusion

Audit acknowleges the efforts made to review the guidelines, although it notes that a big number of loans to SACCOs is below the UGX 100million threshold and thus the amendment may not drastically reduce the high default rate.

Conclusion

MSC management failed to curb the high default rate and this led to a high portfolio at risk.

Recommendations

- There is need to reconsider the threshold to ensure that tighter controls are in place to curb the high default rate.
- In addition, the capacity building programmeme of SACCOs, which is being implemented under another pillar by the RFSP, should be well coordinated with MSC so that gaps are identified jointly leading to improved and effective delivery of the programme to reduce staff turnovers.

6.2.4 RECOVERY OF DELINQUENT LOANS

Recovery of secured loans

According to Section 5.10 of the operations manual, loans past 90 days should be forwarded to the Legal Department for legal action to recover amounts outstanding. Loans forwarded for legal action should be supported by a detailed status report showing the details of the loan, including the valuation report on the assets (collateral), pertaining to the loan.

It was established that the total outstanding balance of loans considered secured forwarded for legal action at the time of audit (January 2014) amounted to UGX 7.04 billion but the securities attached for these loans could only cover UGX 4.16 billion leaving a balance of UGX 2.8 billion without security.

Out of the secured loans amounting to UGX 4.16 billion forwarded to the Legal Department for legal action, only UGX2.1 billion (representing 50%) had been recovered at the time of audit, leaving a balance of UGX 2 billion unrecovered and likely to be written off.

This low recovery rate is attributed to over valuation of securities (properties) leading to acquisition of loans without adequate security. For example, Lango Cooperative Union Limited had an outstanding loan amount of UGX 2.2 billion. However, upon sale of the mortgaged property, the Legal Department could only recover UGX 1 billion, resulting into a loss of UGX 1.2 billion.

Relatedly, in the case of Mashara Enterprises Ltd, it was established that the valuation was undertaken on a different property from the one mortgaged by the client. This case alone is likely to cause MSC a loss of UGX 128 million. The failure by MSC to exercise adequate control over the valuation process has exposed MSC to the risk of financial loss arising from collusion between valuers and the clients.

Management Response

- It ought to be noted that as a measure of guarding against the risk of collusion and Valuers, MSC staff are the ones that issue instructions to Valuers for any work to be undertaken for MSC. The choice is made from a list of pre- qualified Valuers. In addition, the ZO staff visits the property when the Valuer is doing the work. The firms offering this service are also under review and review of all properties for secured loans is ongoing.
- Court proceedings have been initiated to recover loans where the security pledged was not adequate to cover the outstanding loan balances. Civil Suit No. 0012/2013 is still pending hearing in the High Court of Mbale in the case of Jeh Corp Holdings Limited. Notices of intention to sue have been sent out to the clients of Nile Crocodile Park Limited and Lango Cooperative Union Limited to honor their obligations.

Conclusion

There has been laxity by the MSC management in ensuring that proper valuations of assets (collateral) pertaining to secured loans is undertaken.

This has led to clients getting loans of higher amounts than the secured properties resulting into huge losses further inhibiting credit expansion. Audit takes note of the court proceedings and reviews being undertaken and awaits their outcome.

Recommendations

- In addition to the reactive measures above, it is imperative that during the review, MSC should engage professionally competent valuers to undertake valuation of properties.
- Management should also undertake regular/annual impairment reviews of all mortgaged properties to assess the value of the mortgaged assets. If the values are found not to be commensurate with carrying amounts, then clients should be requested to provide additional security.

- There is urgent need to follow up the notices issued to the clients mentioned above.

Recovery of unsecured loans

Contrary to operational guidelines, there were cases of unsecured loans in arrears past 90 days which had not been forwarded to the Legal Department for legal action, but were instead forwarded directly to the board for write off as at 30th June 2013. The write-off was eventually done without any legal attempts towards recovery. This is despite the fact that guarantors' personal assets are valued and inspected as a fallback position in case of default. A sample of cases is shown in Table 34 below.

Table 34: Loans not forwarded to the Legal Department

No.	Client	Loan Amount (UGX)	Days in Arrears
1.	PAIDHA RURAL COOPERATIVE SAVINGS AND CREDIT SOCIETY LTD	40,000,000	593
2.	PI-LWAK SACCO LTD	20,000,000	1,051
3.	KACEL-WACUNG SACCO	5,000,000	2,007
4.	ACHOLI COOPERATIVE SAVINGS AND CREDIT SOCIETY LTD	10,000,000	719
5.	LIRA DISTRICT SACCO LTD	30,000,000	1,181
6.	ATE KI LWAK LWAKANA COOPERATIVE SAVINGS AND CREDIT SOCIETY LTD	10,000,000	306
7.	JOYFOD BUWENGE COOPERATIVE SAVINGS AND CREDIT SOCIETY LTD	20,000,000	863
8.	BUSEDE SUBCOUNTY SACCO LTD	30,000,000	469
9.	MUHOKYA UNITED COOPERATIVE SAVINGS AND CREDIT SOCIETY LTD	30,000,000	356
10.	KITHOLHU AFFILIATE FARMERS COOPERATIVE SAVINGS AND CREDIT SOCIETY LTD	10,000,000	286

Source: OAG analysis of Schedule of loans written-off

The failure or delay to forward loans in arrears past 90 days to the Legal Department for legal action denies MSC the opportunity to recover/salvage some loans and has resulted into loss of funds which could be recoverable. It also explains the high loan write-offs.

Recommendation

The Credit Department should adhere to its operations manual by forwarding loans due past 90 days to the Legal Department for recovery and also consider exercising the option of recovering from the guarantor's assets before recommending loans for write off.

Loan write-offs

For the period under review, MSC could not enforce recoveries of loans, the majority of which were given to SACCOs. Loans amounting to UGX 1.34 billion disbursed to 68 clients had been written off by the board as at 30th June 2010. By 30th June 2013, the write offs had increased to UGX 6.1 billion disbursed to 276 clients as summarized in Table 35 below.

Table 35: Loans Written-Off

Details	Amount written off / Principal (UGX)	Original Amount Disbursed (UGX)	% of original Loan written off	Number of loans written off
Written off as at 30th June 2010	1,337,987,802	1,849,000,000	72%	68
Written-off as at 30th June 2013	6,247,792,562	9,237,180,200	67%	276

Source: OAG Analysis of MSC Board reports

The high rate of write-offs arise from the fact that these loans are not secured and therefore recovery measures are limited to only the guarantors of the loans who are at times untraceable and whose assets present difficulties in attaching.

The high rate of loan write offs leads to loss of funds not only by Microfinance Support Centre but also the GOU since the funding for these loans by the donors(ADB) is guaranteed by the government and has to be paid back through taxes.

Management Response

The measures so far taken are given in managment response to section 6.2.4 above. Follow up continues even for written off loans and so far UGX. 423,251,992 as from FY 2010/11 to 2013/14 has been recovered from such loans.

Conclusion

With the current rate of loan write-offs and the huge amounts involved, there is a risk of depleting the loan revolving fund thereby rendering the Centre unable to achieve its objective of extending credit to those that need it, hence affecting its existence as a going concern. Audit takes note of the practice of continuing to follow up loans even after write off. This may, however, also create challenges if not properly formalised and monitored since not all zones undertake follow ups. Besides, clients may be hesitant to pay after they are aware that their loans have been written off.

Recommendations

- MSC should redefine the eligibility criteria for its clients to ensure that loans are fully secured by real or personal property rather than personal guarantee to avert loss of funds through the high rate of loan write-offs.
- MSC should employ all possible mechanisms to recover delinquent loans.
- Ensure formal guidelines and procedures, like timing, duration and reporting, are disseminated to all zones regarding follow up of written off loans.

6.2.5 PORTFOLIO QUALITY

Portfolio Growth

According to the MSC Strategic Plan (January 2009 to June 2014), MSC had a strategic goal of maximising client outreach and delivering demand driven credit. Management set out to increase loan portfolio by 75% per annum.

The study revealed that there has been no significant growth in the portfolio per annum when compared with the planned target. For details refer to Table 36 below:

Table 36: Trends in Portfolio Growth

FY	Cumulative disbursement (UGX Bn)	Portfolio growth in value (UGX Bn)	%age Annual growth
As at end of FY 2009/10	63.8	n/a	n/a
FY 2009/10 – 2010/11	87.7	23.9	37.5%
FY 2010/11 – 2011/12	120.1	32.4	36.9%
FY 2011/12 – 2012/13	142.0	21.9	18.2%

Source: OAG analysis of ABWPs performance reports (FY 2009/10 - 2012/13)

From the table above, it can be observed that the portifolio growth for the period under review showed a declining trend ranging between 38% (2009/10) and 18% (2011/12) pa which was also far below the target rate.

From the review of Annual Work Plans & Budget reports[93], the major factors affecting portfolio growth were: client governance problems, weak internal controls, cash flow and liquidity problems leading to high loan default rates whereby money lent is not replenished into the revolving fund.

This has had a negative impact on MSC's portfolio growth hence hampering delivery of demand-driven credit to new clients.

Management Response

The portfolio growth by 75% per annum as reflected in the Strategic Plan assumed that sufficient resources would be mobilized/ received which was not the case.

Conclusion

Insufficient funding not withstanding, audit notes that even with the available resources, if the above observed innefficiencies in monitoring, valuation, write off procedures are addressed, MSC would go a long way in achieving its planned targets. MSC therefore failed in its objective of maximising client outreach and delivery of demand driven credit.

Recommendation

MSC should undertake a review of the performance of loans especially those disbursed to SACCOs so that the risks associated with such lending are clearly identified and appropriate mitigation measures undertaken to support the company in achieving its objectives.

6.2.6 COST BENEFIT ANALYSIS OF OPERATING ZONES

MSC is supposed to facilitate access to affordable financial services by providing loans at a lower interest rate (between 9-17%) as compared to the market rates (20 - 25% on average for the period under review) offered by other financial institutions. MSC, therefore, should generate interest revenue from the loans extended to its clients. It is good practice for an organization delivering a service to ensure that the cost of service delivery does not exceed the returns and benefits derived from that service.

An analysis of the financial records of the zones revealed that the operational costs of the zones of Soroti, Mbale, Moroto, Iganga and Gulu were far above the interest revenue generated from the portfolio profiles

93 MSC AWPBs reports (FYs 2009/10 to FY 2012/13)

being delivered in these zones. The zones were incurring more expenses in following up the loans compared to the interest returns from those loans. It was noted that for the FY 2012/2013, expenses of rent, allowances, utilities and salaries to the staff of these zones far outweighed the total interest income from loans disbursed as shown in Table 37 below:

Table 37: Cost Benefit Analysis of MSC Zones for FY 2012/13

Zone	Operating Costs (UGX millions)	Interest Income From Portfolio (UGX' Millions)	Portfolio Size (UGX Millions)	Number Of Clients Served
SOROTI	238.3	56.5	538.1	18 Clients in 8 districts
MBALE	283.6	137.1	981.5	47 Clients in 14 districts
MOROTO	215	73.4	632.4	20 Clients in 7 districts
IGANGA	238.8	158.9	1,407.4	54 Clients in 10 districts
GULU	266.6	376.2	3,320.3	30 clients in 15 districts

Source: MSC Portfolio ledgers and reports

The operating costs were greater than the interest income generated because of the low level of portfolio profiles in these zones and the small number of clients they serve. On average, only two clients are served in a district in each of these zones as indicated in table 37 above. This is in contrast with the objective of opening the various zones which was to reach out to as many clients as possible throughout the country.

This has resulted into a low portfolio growth in these zones hence low service delivery that is not commensurate with the costs the government is incurring to maintain these zones in operation.

Management Response

- The process of rationalizing performance with resources has started. For instance Soroti and Moroto Zones are under the supervision of one zonal Manager and so is Mbale and Iganga Zones. In addition other loan products such as Asset finance loan product are being pilot tested to in order to increase the volume of business in those areas.
- The asset acquired with the loan would act as security for the loan since these areas don't usually have certificate of ownership for the land.

Conclusion

The efforts of rationalization and addition of loan products in those zones is commended, albeit it was too soon to assess the impact. A follow up audit will be conducted to evaluate the effect of such interventions. Otherwise, the Microfinance Support Centre is not realizing the full value for the money spent in operating the zones of Soroti, Mbale, Moroto, Iganga and Gulu.

Recommendations

- Besides the amalgamation of zones, cost rationalization is also important to ensure that the performance of these zones is improved to avoid incurring high costs with no equivalent services rendered to the public.
- In future, without the possibility of donor funding, it is prudent that the MSC zones are encouraged to be

self-sustainable and operate as profit centres where by their interest revenue would be able to cater for the operational costs of the zone and any surplus further invested into the revolving fund.

6.2.7 CAPACITY BUILDING FOR MSC CLIENTS BY THE BDS DEPARTMENT

The Department of Business Development services is responsible for identifying and addressing the capacity gaps for its clients through training. Client training can be done on-site (at the clients premises) or off-site (through organized workshops and conferences).

On-site training of clients is undertaken by the zonal offices during their normal monitoring visits to clients within their region. Off-site training is organized by the Business Development Department at MSC headquarters and it also involves the zonal staff of the respective region where the training is being undertaken.

A review of the MSC audited financial statements for the period under review revealed that UGX 1.069 billion was spent on off-site client training. For details refer to Table 38 below:

Table 38: Expenditure on Trainings by BDS Department

FY	Budgeted Activity	Actual Expenditure (UGX'000)
2009/10	Skills Development for MSC clients. 1,280 (both SACCO Board members and staff) from all the 12 Zonal Offices were targeted.	705,970
2010/11	Train 753 clients' staff in Governance, Financial management and Business Planning.	354,843
2011/12	Train 80 clients in Basic accounting.	1,376
2012/13	Train 140 SACCOs in basic microfinance management practices	6,630
Total		**1,068,819**

Source: OAG Analysis of MSC Financial statements for FYs 2009/10-2012/13

It was observed that the trainings offered by the BDS department had not achieved the desired outcome as many SACCOs had continued to experience poor governance, weak internal controls, liquidity problems, poor record keeping and financial mismanagement problems among others.

This was attributed to the fact that the BDS department lacked a comprehensive training assessment tool for evaluating the impact of the client trainings undertaken.

Ineffective training has impacted on the clients' ability to upgrade their capacities to manage their businesses profitably and also resulted in clients' failure to repay MSC loans.

Management Response

- The BDS strategy will be reviewed to include a comprehensive training and development needs assessment prior to delivery of the interventions. It is however, difficult to ensure that the staff and executive committees trained are retained by the SACCOs due to the high staff turnover in the SACCOs and the duration for the executive committee which is limited to two years renewable only once. For sustained impact, the training should be continuous but this was not the case as is highlighted by the expenditure on the activity during the 2011/2012 and 2012/2013 FYs.
- The company should be supported by government with a budget to provide targeted training and technical

assistance to clients that receive loans so as to enhance their capacity to manage their businesses more effectively and efficiently.

Conclusion

The trainings offered by MSC have had little impact on upgrading the capacity of clients especially SACCOs. This implies that MSC is faced with a risk of lending to clients whose ability to repay the loans is doubtful.

Recommendation

MSC should review the BDS strategy with a view of ensuring trainings yield the positive impact while at the same time being able to measure the impact of such trainings.

6.2.8 FOLLOW-ON LOANS

Section 4.10 of the operations manual (4th Edition) requires that a client can only access a follow-on loan (additional loan) after repayment of at least 30% of the initial loan facility and is up to date with repayment of the Principal and Interest instalments on the existing loan facility. The same section further requires that the client should be within the leveraging limit, that is, not exceeding the maximum liability as authorized by the Registrar of Cooperatives. The maximum number of loans a client will have at any time will be three.

Examination of a sample of clients with multiple loans revealed cases where the requirement for 30% repayment of the initial loan was not met before advancement of the follow-on loans. A case in point is Makindye Community Development SACCO which was given three loans without meeting the criteria as shown in table 39 and Bululu SACCO which was given three loans but eventually all the outstanding amounts were written off as shown in table 40 below:

Table 39: Multiple Loans to Makindye Community Development SACCO

Loan Date	Loan Amount (UGX millions)	% Paid Of Previous Loan (UGX millions)	Outstanding Loan Amounts Written Off (UGX millions)
25/6/2009	10	-	5.56
22/6/2010	20	26%	11.05
7/2/2011	40	5%	39.64

Source: OAG Analysis of clients' files

Table 40: Multiple Loans to Bululu SACCO

Loan Date	Loan Amount (UGX millions)	Outstanding Loan Amounts(Principal) Written Off (UGX millions)	Unpaid Interest (UGX)
17/8/2009	150	74,999,924	13,002,211
23/2/2010	150	131,250,000	32,525,456
1/8/2011	100	66,774,745	5,189,678
TOTAL		**273,024,669**	**50,717,345**

Source: Board Paper on Loans Recommended for Write-Off

There was also an instance where a client was advanced more than three loans contrary to the maximum requirement. Lango Cooperative Union had 5 running loans as at 30th June 2013, and MSC, has failed to recover 4 of these loans as shown below in Table 41**.**

Table 41: Multiple Loans to Lango Cooperative Union

No	Loan Number	Amount (UGX)
1.	008.02.101.000019	457,283,081
2.	008.02.101.000022	1,148,249,719
3.	008.02.103.000001	286,270,266
4.	008.02.103.000002	268,060,483
5.	008.02.103.000003	60,721,717
	Total	**2,220,585,266**

Source: MSC Portfolio Ledgers

This was attributed to management override of controls over follow-on loans. Giving clients multiple loans has resulted into a high default rate and the loans have ended up being written off. No sanctions have been taken against the officers overriding such controls.

It was also noted that MSC had not defined credit limits for individual loan products which is a requirement in credit management.

Management Response

- The Operations manual 4th edition , October 2012 revised the policy on follow i.e the maximum number of loans a client could hold was three and accessing a follow on loan was dependant on the client paying at least 30 % of principal on the initial loan.
- The current operations manual (5th Edition, November 2013) has further revised the policy and the maximum number of loans a client can hold are two and accessing a follow on loan is dependent on the client paying at least 50 % of principal on the initial loan.

Conclusion

The revisions of the operational manuals are commended. A follow up audit will be conducted to assess the effect of the revisions. Meanwhile for those loans mentioned above that have already been disbursed, there were no actions taken against the officers who awarded those loans. The loans remain in default hence further losses to the programme.

Recommendation

Apart from having such policy revisions, MSC management is also implored to take necessary disciplinary actions against staff that violate such policies. MSC should define a risk appetite (credit limit) for each of its loan products.

OVERALL AUDIT CONCLUSION

Inspite of the positive results MSC has achieved over the years, if the high rate of loan default is not addressed, MSC may fail to achieve its stated objective of providing affordable credit to the poor. It is hoped that with the ongoing reviews and implementation of the above recommendations, the Centre will go a long way towards achieving its goals.

7

7.0 MANAGEMENT OF WATER FOR PRODUCTION FACILITIES

7.1 INTRODUCTION

7.1.1 BACKGROUND

Water for Production (WfP) refers to development and utilization of water resources for productive use in crop irrigation, livestock, aquaculture, rural industries and other commercial uses. The Government of Uganda (GoU) through the Ministry of Water and Environment initiated the Water for Production programme whose main objective is to develop and promote the effective use of facilities for water for production for socio-economic development, modernise agriculture and mitigate effects of climate change.

7.1.2 MOTIVATION

Water and Environment is one of the key sectors that contribute to the overall national development objective of poverty eradication under the National Development Plan (NDP).[94] In view of this, the Government of Uganda (GoU) through the Ministry of Water and Environment initiated the Water for Production programme.

With the effects of climate change becoming a reality and the impact this has had on weather patterns, the National Development Plan focuses on allocating more resources to increase the accessibility to water for production for increased crop production, livestock watering and rural agro processing industries.[95] To this end, the Government of Uganda (GOU) invested UGX.46.5 billion towards the construction of water for production facilities (valley tanks and dams) over the financial years 2010/11 to 2012/13.[96]

Despite the significance of the programme and the investments made, there are challenges reported indicating inadequate policy and regulation framework for the users of the water for production facilities; low sustainability of the facilities, particularly in water stressed areas; low sustainability of facilities due to management issues; low community involvement; and limited capacity at Local Governments[97].

The performance in terms of volume of water for production created is still very low compared to the water sector targets. According to the Ministry Sector performance report[98]; the total storage capacity added through investments by MOWE in the FY 2012/2013 was 152,000 m^3 which is significantly less than what was created in the previous year (605,400 m3). By the end of FY 2012/2013, the available cumulative storage capacity for water for production facilities had increased from 26.5 million cubic meters in the Financial Year 2010/2011, to 27.3 million cubic meters. The cumulative WfP storage capacity is currently meeting only 5.5% of the 2009 total demand of 499 million cubic meters.

94 Ministry of Water and Environment Ministerial Policy Statement, 2009/10

95 National development plan 2010/11-2014/15; pg. 52

96 Ministry of water sector performance report 2013 page 96

97 MOWE Ministerial Policy Statement, 2012/13

98 Ministry of Water and Environment Sector Performance report 2013

It is against this background that the Office of the Auditor General undertook a value for money audit to establish whether the Ministry through the Department of Water for Production was taking appropriate measures in ensuring adequate supply of water for production.

7.1.3 DESCRIPTION OF THE AUDIT AREA

General description

The WfP programme focuses on water for livestock, irrigation, fish farming and water for rural industries. The Ministry of Water and Environment has invested greatly in the construction of WfP facilities such as dams, valley tanks, bulk water supply systems pilot irrigation schemes including rehabilitation of old water for production facilities.

The Directorate of Water Development through the department of water for production is responsible for ensuring that water for production facilities are in place countrywide.

Mandate

The Ministry of Water and Environment (MoWE) derives its mandate from Article 245 of the 1995 Constitution of the Republic of Uganda (as amended), and the Water Act 1997. Through a cabinet decision[99] of 21st September 2011, the Ministry was empowered to develop water sources and transmit (bulk transfer) the water through closed conduits or canals to farm gates.

Vision and Mission Statement

Vision

The Water for Production Department supports the Ministry's vision which is "Sound management and sustainable utilization of water and environment resources for the betterment of the population of Uganda".

Mission

The Ministry's Mission is "To promote and ensure rational and sustainable utilization, development and effective management of water and environment resources for socio-economic development of the country".

Organization Structure

MOWE has three directorates: Directorate of Water Resources Management (DWRM), Directorate of Water Development (DWD) and the Directorate of Environmental Affairs (DEA).

The directorates are divided into various departments and divisions according to their functions.

Strategic Objective

The overall goal for the development of WfP is: "to promote development of cost- effective and sustainable water supply and water management for increased production and contribution to the modernization of the Agricultural sector in Uganda with a focus on poverty reduction and minimal environmental impacts".

At the strategic level, the Ministry aims at:

- Setting national policies and standards, managing and regulating water resources and determining priorities for water development and management.
- Monitoring and evaluating sector development programs to keep track of their performance, efficiency and effectiveness in service delivery.

Funding

The water for production facilities programme is 100% funded by GoU. During the period under review,

99 Minutes of Cabinet meeting 285 (CT 2011) dated 21/09/2011

UGX.46.469 billion was released by government for the construction of dams and valley tanks as detailed in Table 42 below:-

Table 42: Showing funding for construction of water for production facilities

Financial Year	Amount invested (Bn UGX)
2010/11	5.0
2011/12	38.8
2012/13	2.6
Total	**46.4**

Source: Ministry Sector performance report 2013

7.1.4 AUDIT OBJECTIVES

The overall objective of the audit was to evaluate the efforts being made by the

Ministry of Water and Environment (MoWE) to ensure availability of adequate water

for production facilities nationally in a sustainable manner.

The specific audit objectives were:

To establish whether:-

- Proper planning was undertaken to meet the national demand for water for production.
- Facilities were constructed with due regard to economy, efficiency and effectiveness
- The facilities were optimally utilized in a sustainable manner

7.1.5 AUDIT SCOPE

The study focused on the water for production program in the Ministry of Water and Environment (MoWE). It involved visiting districts in the cattle corridor where water for production facilities were constructed. These included Isingiro, Sembabule, Kiboga, Lira and Kaabong. The review covered three financial years namely, 2010/11, 2011/12, 2012/13.

7.1.6 AUDIT METHODOLOGY

Sampling

The facilities visited were identified using stratified simple random sampling and this involved stratifying the facilities into three (3) main categories namely; dams, valley tanks and pilot irrigation schemes. The basis of selection of the facilities was recently completed water facilities i.e. Nyamiriga, Kajodi and Nakakabala valley tanks; monetary value for Longomirit dam, and the cattle corridor where the dams are specifically located. A sample of seven (7) facilities across the cattle corridor was selected from these categories for detailed review. Of the seven facilities reviewed four were valley tanks namely Obwengyerero, Nyamiriga, Kajodi and Nakakabala valley tanks; while three were dams that is Longomirit, Akwera and, Arechet dams.

Data collection

The following data collection methods were used to gather audit evidence:-

Document review

The team obtained and reviewed documents relating to the WfP to get an understanding of the operations of the Ministry in availing water for production.

Interviews

A total of five (5) interviews were conducted with MOWE, DWO, Water user committees and Water Users in areas where the facilities are located.

Observation/field inspections

Seven (7) WfP facilities were selected and inspected to ascertain the progress and status of their implementation.

These field inspections were undertaken to assess the quality and progress of work in relation to the construction of the water for production facilities.

7.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

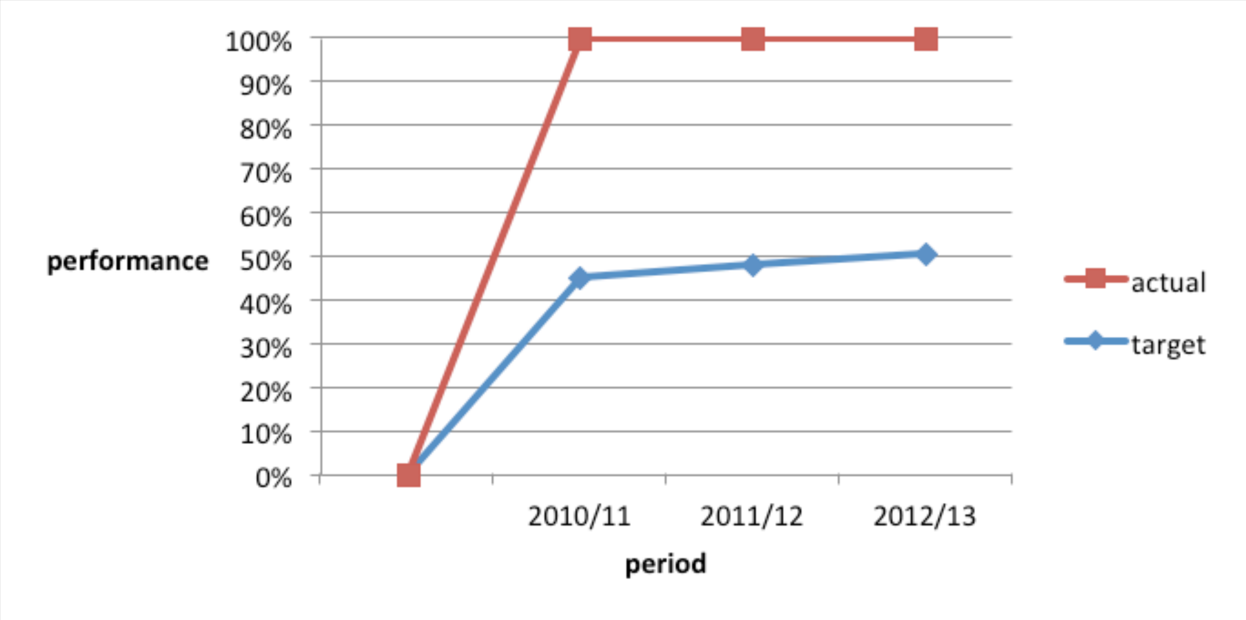
The Ministry of Water and Environment through its directorate of water development has been developing water infrastructure in the country through its water for production department. Considerable progress has been achieved over the years with actual volumes of water created exceeding the planned water volume targets in the past three years as illustrated in Table 43 and figure 11 below

Table 43: Showing cumulative water Volume targets and actual volume created

Year	Target cumulative Volume million (m3)	Actual cumulative volume achieved (m3)	% percentage performance
2010/11	22	26.47	120%
2011/12	25	27.1	108.4%
2012/13	28	27.25	97.3%

Source: sector performance reports 2010/11, 2011/12, 2012/13

Figure 11: Showing cumulative water volume targets and Actual water volume created.



Source: OAG analysis of water volume targets from MOWE Sector performance reports for 2011, 2012 and 2013

However inspite of this achievement, the study has identified areas which require improvement to ensure better management of the water for production subsector and enhance service delivery.

7.2.1 NEEDS ASSESSMENTS

In order to reliably estimate and project the water for production needs of the country, there is need for the key implementing agencies that is, MOWE and MAAIF to undertake a joint nationwide needs assessment for water for production to guide planning for the water for the production sector.

It was observed that there was no nationwide needs assessment undertaken to establish the exact water for production needs of the country as a whole and specific regions or areas which could be used for planning and resource allocation.

The Ministry, in projecting the water for production needs, relies on a number of documents, for example, the irrigation master plan, the water for production subsector strategy and investment plan and the national development plan.

Resources allocation for construction of facilities is based on a demand responsive approach where the need for the facilities is originated by the districts in writing and the Ministry responds to the requests depending on the availability of the funds, and taking into consideration other factors.

This is partly attributed to lack of a clear policy that would explicitly require the country water needs to be periodically assessed.

Management Response

The Ministry has planned to undertake a National needs assessment for Water for Production as recommended, amongst the key outputs of the needs assessment shall be a resource investment allocation formula.

The needs assessment undertaken shall be informed by the relevant water for production subsector study findings which shall include but not limited to water for production strategy and investment plan, irrigation master plan, water for production rehabilitation plan and the water for production capacity building strategy. All stakeholders inclusive of the Ministry of Agriculture, Animal Industry and Fisheries shall be consulted.

Conclusion

There was no documentary evidence provided on the planned action. Audit could not verify the timeline and budget for the exercise.

Without a national needs assessment, it is difficult to systematically address the needs for water for production of the country making it difficult to achieve the overall objectives of the water for production sub sector.

Recommendation

The Ministry of Water and Environment should liaise with the other key stakeholders in the water for production subsector mainly MAAIF, to come up with a comprehensive plan which include, the timelines, activities and budget for the needs assesment

7.2.2 VOLUME OF WATER FOR PRODUCTION

The approved water sector investment plan 2009 (page 3) projected the estimated demand for water for production at 499 million (m^3) by 2009 and at 664 million (m^3) by the year 2015. This is the demand level that the Ministry set out to meet given the projected investments in the water for production facilities.

It was observed that achievement of these targets was still a challenge as noted below:

Projected demand and annual set targets

Data obtained from the Ministry had projections for demand for water for only the FY2009/10 and 2014/15 which stood at 499m^3 and 664m^3 respectively. Using these figures, projections for demand for water were made for FY2010/11, FY 2011/12, FY 2012/13 and FY 2013/14 based on the assumption that the projected demand would increase at a constant rate of 33 million cubic meters per year as shown in table 44.[100]

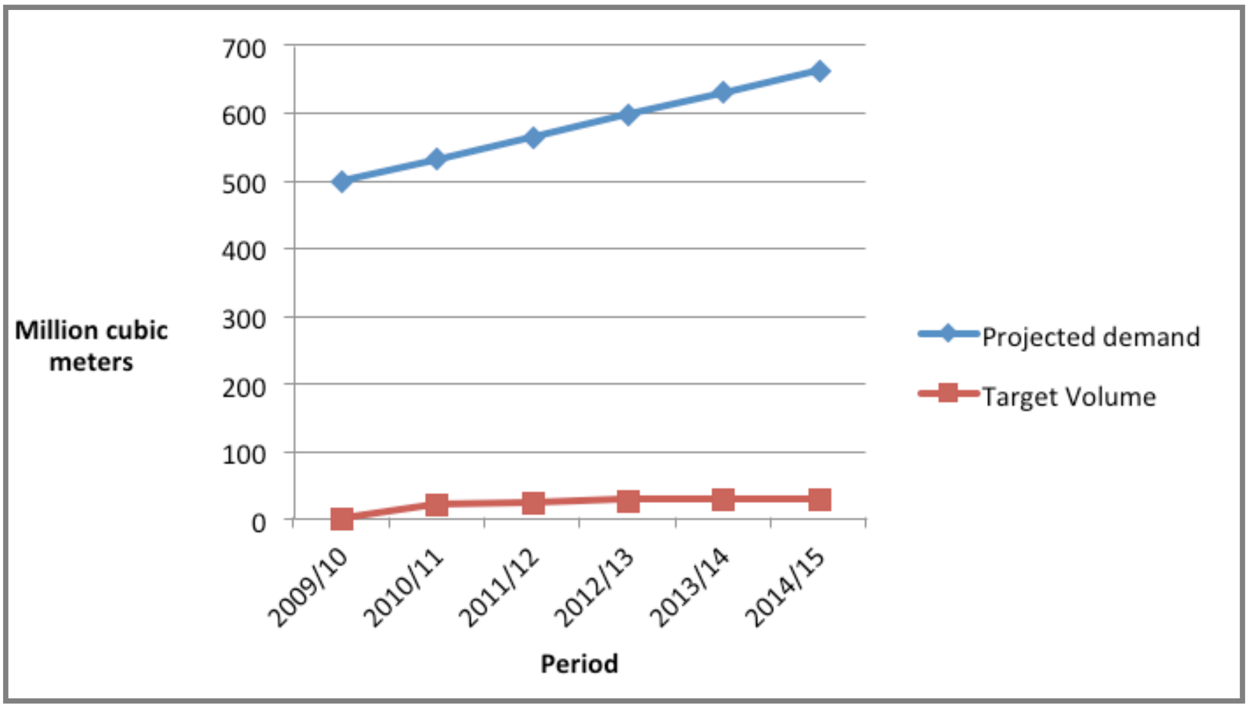
Table 44: Showing projected demand and annual targets set by MOWE

Year	Projected demand Million (m^3)	Annual targets Million (m^3)	%antage of projected demand
2010/2011	532	22	4.1%
2011/2012	565	25	4.4%
2012/2013	598	28	4.6%

Source: OAG analysis of projected water demand and Annual targets from MOWE sector performance reports for 2011, 2012 and 2013

100 ((664-499)/5years which is 33 million cubic meters per year)

Figure 12: Showing the projected water demand and annual targets set by MOWE



Source: OAG analysis of projected water demand and Annual targets from MOWE sector performance reports for 2011, 2012 and 2013

The annual target water volumes set are far below the projected demand and the desired volume set in the National Development plan (NDP) which is 45 million cubic meters by 2014/2015. At this rate the Ministry may never meet the increasing water demand level of the country and as a result may not effectively fulfill its mandate regarding water for production.

This is partly attributed to the low level of investments being undertaken in the sector. For example, to achieve the projected level of demand it was anticipated that estimated annual funding for the activities between 2009/10 and 2014/15 would be UGX.107.8billion, however, the average funding for the activities has been UGX.23 billion which represents only 21% of the anticipated funding resulting into an average funding gap of UGX.84.8billion.

The funding gap was noted and under a cabinet minute of 286 (CT 2011), a decision was taken requiring the Ministry of Finance, Planning and Economic Development to raise the sector ceilings to enable the Ministry to allocate adequate resources for the water sector.

Management response

As part of implementation of the increased water for production strategy the Ministry shall liaise with the Ministry of Finance, Planning and Economic Development to ensure that funding is increased for water for production in order to achieve the set targets especially in realization of the climatic change variability and prolonged drought; which recommendation is consistent with the Cabinet decision 286 (CT 2011) of 21st September 2011.

Recommendation

In line with the cabinet decision, the Accounting officer should consider increased follow up with MOFPED to increase funding to the subsector.

Projected water demand and Actual available Quantity

From the analysis of the projected demand and a review of the sector performance reports for the financial years 2010/11, 2011/12, and 2012/13, it was noted that the cumulative WfP storage capacity (quantity available water for production) was too low to meet the projected volume demanded as illustrated in table 45.

Table 45: Showing projected water demand and actual available volume

Year	Projected demand Million (m^3)	Cumulative wfp storage (Actual available Quantity) Million (m^3)	% percentage
2010/11	532	26.47	4.97%
2011/12	565	27.1	4.7%
2012/13	598	27.25	4.5%

Source: OAG analysis of projected water demand and Annual targets from MOWE sector performance reports for 2011, 2012 and 2013

As illustrated above, the available water for production can only satisfy 4.5% of the total projected water for production demand.

This may also be partly attributed to the low funding levels compared to what is required to satisfy the projected demand levels.

Management response

The Ministry acknowledges the current volume of water for production available is insufficient to address the country's needs impacting on other sectors notable agriculture. The Ministry shall allocate more resources for water for production from its own resource envelope in addition to engaging the Ministry of Finance, Planning and Economic Development to fund the subsector outside the current sector ceiling.

Conclusion

The volume of water for production available is insufficient to address the country's needs and this impacts on the other sectors particularly agriculture that relies on it.

Recommendation

Funding for water for production should be prioritized in order for the Ministry to meet the national demands.

Cost of water for production

The Strategic Investment Plan (2009) for the water sub sector highlights reducing the cost of availing each m^3 of water for production in order to improve the viability of the investments and attract more funding from government, donors and investors.

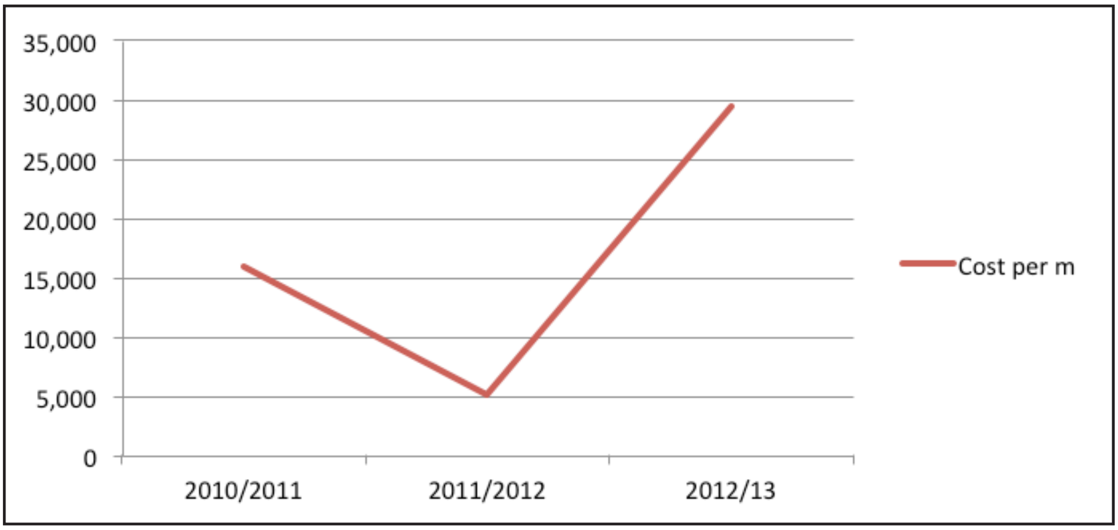
It was, however, observed through analysis and review of documents that the cost per m^3 of the water for production has increased from UGX 15,916 in 2010/11 to UGX 29,391 in 2012/13 as illustrated in Table 46 and Figure 13**.**

Table 46: Showing cost per cubic meter of water for Production.

Period	2010/2011	2011/2012	2012/2013
Cost per m^3	15,916	5,009	29,391

Source: Annual sector Performance reports from 2011, 2012 and 2013

Figure 13: Showing cost per cubic meter of water for production



Source: Water and environment annual sector performance reports for 2011, 2012 & 2013

According to the Ministry, the key cost drivers are economies of scale related to contracts, the technology options for developing the existing water resources, inflation, private sector capacity, supervision and contract management.

The increase in costs was attributed to a change in technology options with the Ministry investing more in valley tanks which are more costly compared to the dams. The other causes were the increase in investments without necessarily creating storage due to multiyear projects (i.e. although the tanks have been excavated, they have not yet filled with water), technology limitations (cheaper facilities like dams cannot be constructed everywhere) and the general increase in the cost of inputs such as fuel.

In an effort to reduce the cost per m^3, the Ministry had purchased its own equipment for use in excavation of tanks and which could also be hired by farmers instead of engaging contractors. The cost per m^3 of using this equipment is approximately UGX. 16,400 per cubic meter compared to the average cost charged by contractors of UGX.60,000 per cubic meter.

Management Response

The Ministry will scale up the use of equipment to augment the current efforts of construction of valley tanks on individual farms and for communal use in an effort to increase coverage, reduce unit costs and improve management of the constructed facilities.

Recommendation

In order to achieve the intended objectives at a reasonable cost, the Ministry should ensure efficient use of such equipment especially in areas where large and cheap multipurpose facilities cannot be constructed. In addition, a comprehensive plan on the utilisation, operation and maintainance of this equipment should be made to enhance sustainability.

Functionality of water for production facilities (WfP)

In order to achieve the objectives of the water for production sub sector the various stakeholders, that is, MOWE and the local governments should ensure that the constructed facilities remain functional. According to the strategic investment plan the sector should have a targeted functionality rate of 70% by 2015.

It was observed that although the functionality rate has improved from 24% in 2010/11 to 71% in 2012/2013, a number of facilities remain either partially functional or non-functional altogether as illustrated in table 47.

Table 47; Showing functionality of water for production facilities

Year	2010/2011	2011/2012	2012/2013
	Percentage of WfP facilities functional	Percentage of WfP facilities functional	Percentage of WfP facilities functional
Fully functional	24%	67%*	71%
partially functional	61%	29%	24.3%
Non functional	15%	4%	4.2%
Total WfP	**1070**	**653**	**711**

Source: OAG analysis of Water sector performance reports for 2011, 2012 and 2013. *functionality was assessed for facilities constructed between 2000-2012

It was noted through reviews of the water sector performance reports that the non functionality of WfP facilities was attributed to a number of factors such as:

- Unacceptable water quality for human and livestock consumption;
- Low yielding water sources with declining water tables
- Silted WfP facilities such as dams and valley tanks
- Mechanical breakdown of pumps and pump parts
- Dropping water levels in wells
- WfP facilities with no management structures and water user committees (WUC)

A detailed analysis of the causes for the two years is shown in table 48 below

Table 48: Showing causes of non-functionality of WfP facilities

Year	2012	2013
Water quality	2%	0.5%
Siltation	55	28.3%
Mechanical breakdown	20%	43.5%
Other	23%	27.7%
Total	**100%**	**100%**

Source: OAG analysis of Water sector performance reports for 2012 and 2013

Management explained that the Ministry had undertaken a number of interventions to address the causes which include:

- Providing watering ramps to avoid siltation of the valley tanks
- Partnering with farmers to provide them with water on their farms to address maintenance issues.
- Eliminating pumping and opting for Gravity abstraction system to minimize mechanical breakdown.
- Changing designs to create interception ditches/ silt traps around the valley tanks

Management response

The Ministry takes note of the recommendation and will endeavour to ensure that the causes of the non-functionality of the water for production facilities are addressed.

Conclusion

The non-functionality and partial functionality of the constructed facilities impacts on the attainment of the overall objectives of the Water for Production Department**.**

Recommendation

The Ministry of Water should ensure that in addition to the above interventions, managment structures and WUC are strengthened to improve and maintain the water source so as to achieve value for money for the investments made in constructing these facilities.

Coordination between MOWE and Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)

MAAIF is the lead agency for water use and management for agricultural development "on farm". MAAIF is also mandated to supervise "on farm" water infrastructure as primary distribution and tertiary networks for irrigation systems and other on farm users.

In the development of WfP facilities MOWE and MAAIF are required to work in consultation to ensure that the facilities address both off farm and on farm requirements.

To achieve this, Government established an Inter‐Ministerial Technical Committee to harmonize policies, plans, programs and the investment projects of WfP through Cabinet decision 286 (CT 2011) dated 21 September 2011.

It was observed from a review of reports and various correspondences that there are still gaps in coordination between the key players. For example, in a letter (FAD46/97/01 dated March 14, 2012) MAAIF protested an advert by MOWE seeking services of competent firms to bid for supply and installation of drip irrigation which, according to MAAIF, was their mandate.

The coordination gaps were also evident with a number of dams, including Arechet, Akwera and Longoromit, where after completion, the facilities remained underutilized due to failure by MAAIF to implement any "on farm" activities yet these are designed to be multi-functional facilities.

Management response

MoWE will bring this matter to the attention of the Inter- Ministerial Technical Committee on water for production for appropriate action.

Conclusion

The coordination gaps between the two implementing agencies evidenced by overlap in mandates may lead to duplication of roles by the two implementing agencies and impact on the effectiveness since the two ministries have different competencies.

Recommendation

The Inter-ministerial Committee set up by the government needs to be more assertive and ensure that the coordination challenges between the two implementing ministries are addressed for effective delivery of services.

Design of the facilities

The design of a facility is based on the demand needs of the existing population at the time of the feasibility studies. The design report clearly states the needs, anticipated population the facility is constructed to serve and the period.

It was established from a review of the design reports that the capacity of some facilities was not sufficient to satisfy the short term and long term water demands of the people as stated in the feasibility report as detailed in table 49**.**

Table 49: Showing the water demand requirements at feasibility study and capacity of the constructed facility.

S/N	Facility	3 months dry period Projected demand (m^3)	Capacity of facility constructed (m^3)	Remarks
1	Obwengyerero valley tank	50,000 by 2025	42,000	Insufficient
2	Nyamiringa valley tank	142,830 by 2015	10,000	Insufficient
3	Kajodi valley tank	48,727 by 2015	10,000	Insufficient
4	Nakakabala valley tank	89,910 by 2015	10,000	Insufficient
5	Akwera Dam	478,371 by 2023	1,070,000	Sufficient
6	Arechet dam	600,237 by 2015	2,100,000	Sufficient
7	Longoromit dam	502,200 by 2015	1,400,000	Sufficient

Source: feasibility and design reports for the various facilities

Data obtained shows that four (4) out of the seven (7) facilities cannot meet the water demand assessed during the feasibility studies.

This was attributed to feasibility of the technology options (where it is not possible to have Dams in all locations) and the equitable considerations during resource allocation. ("Some for all and not all for some") and the possibility of lack of sufficient land to construct larger facilities.

Management response

It should be noted that some of the water for production facilities constructed do not meet the projected water demand for the respective areas due to resource and technology viability limitations and equity considerations; however, in addressing the water demand concerns, prioritization will be made on construction of dams over valley tanks where technically feasible.

Conclusion

Construction of facilities that do not meet the current and future demand levels affects service delivery especially in the water stressed areas.

Recommendation

The Ministry through the Water for production department should focus on constructing facilities that can meet the short and long term water demands for the communities.

Completion and hand over of Works

The special conditions of the contracts stipulated in the contract agreements clearly spell out the completion periods of the various projects and in case of non-compliance the penalties chargeable.

It was noted that five (5) out of seven (7) sampled projects were not completed and handed over in time and there was no evidence of contract extensions. In addition, liquidated damages amounting to UGX. 224,959,769 were not charged by the Ministry as required by the contract conditions. Details of the delays and the chargeable damages are shown in table 50 below.

Table 50: Showing Project Construction Schedules

Sn	Project / contract amount	Intended completion date after extension	Actual completion date	Delays	Liquidated damages chargeable (UGX)
1	Obwengyerero Valley tank (2,187,844,440)	29/10/2010	29/10/2010	0	0
2	Nyamiringa Valley tank / UGX 625,976,000	24/09/2013	20/12/2013	86 days	26,916,968
3	Kajodi valley tank/ UGX 483,324,490	24/8/ 2013	10/10/2013	46 days	11,116,463
4	Nakakabala Valley tank / UGX 564,068,931	24/8/2013	10/10/2013	46 days	11,281,378
5	Akwera dam/ UGX 6,999,404,500	28/2/2011	22/3/2011	22 days	153,986,899
6	Arechet Dam / UGX 6,681,682,150	30/4/2011	30/4/2011	0 days	0
7	Longoromit dam / UGX 7,219,353,573	23/9/2011	28/9/2011	6 days	21,658,061
Total					**224,959,769**

Source: OAG analysis of project data

The delays were attributed to a number of reasons, including: inadequate capacity of the contractors; insecurity in some areas, especially Karamoja region; delayed payments to contractors due to cash flow constraints in the Ministry; and changes in ground conditions, for example, at Longoromit Dam.

Management response

The Ministry acknowledges the time overruns experienced by some projects mentioned; however time extensions for Nyamiringa valley tank contract, Kajodi valley tank contract and Nakakabala valley tank have been secured.

In respect of Akwera dam, Arechet and longoromit dams, liquidated damages could not be charged by the Ministry because of factors beyond the control of the contractors as adverse ground conditions, insecurity and land acquisition challenges. Thus in consideration of these challenges the Project Manager duly extended the completion date.

Recommendation

In future, such factors like land acquisition and ground conditions should be identifiednduring the feasibility study so theat they are factored into contract timelines.

Quantity verification

Special Conditions of Contract for contracts signed by MOWE for the facilities specify that payments for works should be commensurate with the works executed (Admeasurement Contracts).

During the field inspections, measurements were undertaken and compared with the certified quantities of various bill items. It was established that payments were made in excess of works executed by UGX **74,597,200** on five (5) projects as shown in table 51**.**

Table 51: Showing excess payments for civil works

S/N	Project name / Contract Amount	Contract Amount (UGX)	Contractor	Excess Payments (UGX)
1	Obwengyerero Valley tank	2,187,844,440	Omega Construction Co ltd	25,695,600
2	Nyamiringa Valley tank	625,976,000	Ambreco Holdings Ltd	32,850,000
3	Kajodi valley tank	483,324,490	Global International Services Ltd	13,000,000
4	Nakakabala Valley tank	564,068,931	Global International Services Ltd	3,051,600
5	Akwera dam	6,999,404,500	Ambitious Construction Co. Ltd	0
Total		**10,860,618,361**		**74,597,200**

Source: OAG analysis of quantity of works executed and amount of work paid for.

The overpayments were attributed to inadequate supervision by contract supervisors. This led to certification of incorrect values of works executed and hence payments in excess of executed works. The overpayments also led to unnecessary contract escalation.

Management response

The Ministry wishes to clarify that there were no overpayments under Obwongerero valley tank contract, but rather necessary works had to be done to cater for interceptor drains, compacting of material below the Armco culverts to allow for smooth approach to existing traffic

Audit Response

In as much as these works were necessary, there was no evidence of approved variations.

Recommendation

In the absence of approved variations, MOWE should recover the amounts paid in excess of works executed from outstanding certificates for ongoing contracts and also come up with measures to enhance contract supervision.

Quality of works executed

The contract specifies the quality of work required by way of specifications (General and Particular) in reference to every item in the BOQ.

In the course of the field inspections, it was noted that the completed works were still holding well, however, quality deficiencies on some components of four (4) out of the seven (7) facilities were observed as shown in table 52 below.

Table 52: Showing Quality of works executed

S/N	Facility	Quality deficiency Observed
1	Obwengerero valley tank	Stone motor bond failure observed, Sections of the fence were not anchored. The pumps that were installed at the tank were non-functional.
2	Nyamiringa Valley tank	Gulley formation on the internal side of the newly excavated surface. Stone motor bond failure observed
3	Kajodi Valley tank	Visually, facility elements were holding well
4	Nakakabala valley tank	Gulley formation on the internal side of the newly excavated surface. Settlement of concrete staircase
5	Akwera Dam	Visually, facility elements were holding well Rebound hammer tests on intake tower concrete met specifications
6	Arechet Dam	Section of the toilet verandah disjoined from the main wall
7	Longoromit Dam	Visually, facility elements were holding well

Source: OAG photos taken on during site visits.

The quality deficiencies were attributed to weakness in contract supervision during execution, gaps in maintenance of the facilities, variability of weather which affects grassing for embankment protection against erosion and deterioration of works over time.

Poor compaction could lead to erosion which will lead to siltation of the tanks hence affecting design storage in the long run.

Management responses

The Ministry takes note and will ensure that the identified snags/defects in the mentioned contracts will be managed; however for facilities whose defects period has since expired the Ministry will support the Local Governments and management committees to address the identified defects.

The Ministry will further strengthen its supervision mechanisms to ensure Total Quality Management of the works to be undertaken in future.

Conclusion

Deficiencies in the quality of works affect the life span of the facilities.

Recommendation

For facilities still under defects liability, the contractor should correct the defects to avoid further deterioration of finished works. For completed works, the Ministry should encourage maintenance by the users and enhance supervision of ongoing works to ensure that works conform to the quality specifications.

Utilization of the facilities

When an infrastructural investment is put in place it is good practice to ensure that the objectives are met in terms of usage of the facility for the purpose it was put in place.

Audit inspection of the seven sampled facilities revealed that three (3) out of the seven (7) facilities were under-utilized as shown in table 53 below:-

Table 53: Showing Utilization of the Facilities

S/N	Facility	Purpose at design	Utilization during inspection	Remarks
1	Obwengerero valley tank	Domestic use Livestock watering	Domestic use Livestock watering	Met objective Surface water requires treatment for domestic use.
2	Nyamiringa Valley tank	Livestock watering	Livestock watering	Met objective
3	Kajodi Valley tank	Livestock watering	Livestock watering Domestic use	Met objectives Capacity not enough, Water should be treated
4	Nakakabala valley tank	Livestock watering	Livestock watering	Met objectives
5	Akwera Dam	Livestock watering, Domestic use, Small scale crop irrigation Flood mitigation	Livestock watering, Pilot irrigation done by MOWE Fish farming	There is need to upscale crop irrigation. water for domestic use should be treated The facility should be utilized to full capacity.
6	Arechet Dam	Livestock watering, Domestic use, Small scale crop irrigation Flood mitigation	Livestock watering, Domestic use, Pilot irrigation implemented by MOWE Flood mitigation	There is need to upscale crop irrigation. water for domestic use should be treated The facility should be utilized be to full capacity.

7	Longoromit Dam	Livestock watering, Domestic use, Small scale crop irrigation	Livestock watering, Domestic use, Pilot irrigation crop irrigation	There is need to upscale crop irrigation. water for domestic use should be treated The facility should be utilized to full capacity.

Source: OAG field inspections.

Picture 5: Showing Utilization of some of the water for production facilities

Cattle watering at Obwengyerero Valley Tank

Cattle watering at Nakakabala Valley Tank

Pilot irrigation schemes set up by MOWE at Arechet Dam and Longoromit Dam

Source: OAG photos taken on during site visits.

The underutilization was attributed to the failure by the Ministry of Agriculture to extend "on farm" activities to the facilities. This creates difficulties in achievement of value for money in such investments.

Management response

Optimal utilization of facilities will be strengthened through engagement of MAAIF directly and through the Inter-ministerial Technical Committee meetings with the Ministry.

Conclusion

Although the facilities were designed for a number of purposes, they are not yet optimally utilized to full design capacity.

Recommendation

The Ministry of Water should engage the Ministry of Agriculture through the inter-ministerial Committee to ensure that the facilities are utilized to their full design capacity.

7.2.3 MANAGEMENT OF THE FACILITIES

Functionality of Water user committees

The MOWE Operation and Maintenance (O&M) Strategy for water for production facilities is hinged on Community based Management System (CBMS) type of arrangement. Under this system the Community is organized to manage the WfP facilities after construction and to ensure their effective and efficient utilization. This involves setting up functional Water User Committees and developing bye-laws for the O&M of the facilities.

Some of the main responsibilities of the committees are to ensure that the facilities are used for the intended purpose (irrigation and livestock) and to raise funds for maintenance through user fees.

Data available shows that out of the 711 facilities constructed between 2000-2013, 278 facilities were under community management with established water user committees. Out of the 278 committees, 216 (78%) were functional and 62 (22%) were nonfunctional.

In addition it was noted that there was still a big challenge in collecting the user fees to be used in maintenance of the facility, the water pumps and for minor repairs on the facility.

During inspection and interview with the locals found at some facilities, it was also noted that the water was also being used for human consumption which presented health risks to the population as seen in the picture 6 taken at Obwengyerero valley tank.

Picture 6: Showing people fetching water from Obwengerero Valley tank

Source: OAG photo taken on during site visits.

A microbial analysis was carried out on the water from Obwengerero valley tank and the results showed that it was not recommended for human consumption as detailed in table 54 below.

Table 54: Showing results of a microbial analysis of water from Obwengyerero Valley tank

Parameter	Mean results	Recommended standard
Total viable counts cfu/ml	86	100
Total coliforms cfu/100ml	266	nil
E.coli cfu/100ml	18	nil
Clostridium perfrigens cfu/ml	0	nil
Faecal coliforms cfu/ml	27	nil
Faecal streptococci cfu/100ml	10	nil

Source: Test analysis of water samples from Obwengyerero

The non-functionality of the committees was attributed to lack of facilitation of the members and the fact that membership is voluntary.

The Ministry is currently undertaking sensitization of the locals, community leaders and committees while also engaging the private sector to operate the large facilities.

Management Response

- Non –functionality of the user committees is partially due to reliance on voluntarism, lack of facilitation to the water user committee members and a waning sense of ownership by the users, in addition to inadequate support and technical backstopping from the Ministry of Local Government.
- The Ministry will support the various local governments in ensuring that the facilities have functional water user committees in addition to undertaking sensitization of user communities.
- The Local governments will be further encouraged to provide alternative sources of water for domestic consumption

Recommendation

The MOWE should support the various local governments in ensuring that the facilities have functional water user committees and discourage the use of water from these facilities for human consumption through sensitization of the population about the health risks. In addition the Ministry should encourage the local governments to provide alternative water sources safe for domestic use next to the facilities.

Maintenance of constructed facilities

The MoU signed between the Local governments and the Ministry of water at handover of the facilities states that the local government shall use its administrative and management structures to ensure that the facility remains in good functioning order. The local government shall also supervise the beneficiary community to ensure that the facility is operated, maintained and managed effectively, including: slashing, fencing and ensuring that there is no watering directly from the facility.

It was however, noted that three (3) out of the seven (7) facilities visited were not properly maintained after construction. This was visible at Obwengyerero; Akwera and Nakakabala facilities where shrubs had overgrown around the facilities, sections of the facilities were covered by water lilies and wild grass. In Akwera, the drinking troughs were covered by bush and the area around was all water logged, the toilet was also inaccessible, and the doors of the toilet were found disjoined from the frame. In Obwengyerero the by-pass channel and the areas around the sedimentation tank were covered by overgrown bush and water logged as illustrated in picture 7.

Picture 7: Showing poorly maintained WfP facilities

Some of the drinking troughs covered in bushes and with surrounding area water logged.

Access route to the toilet at Akwera all sub merged in water making the facility

unaccessible.

A section of the by-pass channel over grown bush at Obwegyerero valley tank.

Source: OAG photos taken in December 2013

Management attributed the poor maintenance of the facilities to: lack of capacity by the respective local governments to maintain the facility, poor maintenance culture for communal facilities, and the unwillingness to pay user fees for communal facilities.

The poor maintenance of the water for production facilities has affected the proper utilization of the facilities and threatens the sustainability of the facilities in the long run.

Management Response

Maintenance of constructed facilities is still a big challenge; a poor maintenance culture for communal facilities, unwillingness to pay for user fees and lack of capacity by both user committees and respective local governments impacted on maintenance of the facilities.

The Ministry however takes note of the specific recommendations and will endeavour to ensure that they are put in place in addition to building the capacity of local governments to fulfill their management obligations.

Conclusion

Although the MOWE and the respective Local governments signed memoranda to ensure that the constructed facilities are maintained regularly, this is still a big challenge which affects their optimum utilization and threatens sustainability.

Recommendations

MOWE should:

- Put in place a maintenance framework for the facilities, including a maintenance and operation manual, as well as guidelines.
- Build the capacity of the local governments to undertake the maintenance of the facilities through sensitization and training, among others.
- Prioritize the activity and provide adequate supervision.

OVERALL AUDIT CONCLUSION

Inspite of the achievements made in meeting the annual water volume targets and increase in storage capacity, a lot still has to be undertaken to meet the national targets set under the National Development Plan. A proper needs assessment for water for production should be undertaken to determine the actual long term demand for water for production followed by substantial investment by government in terms of funding and infrastructure. The existing weaknesses such as delayed completion of water for production facilities, poor maintenance and underutilization of the existing facilities also need to be addressed if sustained and improved service delivery in the water sector is to be achieved in Uganda.

8

8.0 MANAGEMENT AND HANDLING OF CHILD ADOPTION PROCESS IN UGANDA

8.1 INTRODUCTION

8.1.1 BACKGROUND TO THE AUDIT

The Ministry of Gender, Labour and Social Development (MOGLSD) was formed in 1998 as a result of merging two ministries: the then Ministry of Labour and Social Welfare and Ministry of Community Development. As a lead agency in the social development sector (SDS), the Ministry is responsible for providing policy direction, national standards, supervision and coordination, of all matters concerning the rights of children (orphans and vulnerable children in Uganda) through the Department of Youth and Children's affairs. The role of this Department is to ensure care, protection and empowerment of children. It helps to ensure safety and the wellbeing of children in need of protective services, foster care and adoption services.

8.1.2 MOTIVATION

In Uganda there are estimated to be 2.4 million orphans of which about 1.1 million are due to the HIV/AIDS epidemic, which has created a great need to find permanent, living homes for these orphaned children[101].

When all efforts to enable reunification or kinship care for vulnerable children have been exhausted, domestic adoption may be considered. Due to the strength and emphasis on the extended family, Uganda has a long tradition of families caring for children of their extended family members; often this is referred to as informal fostering or informal adoption. The practice of legally adopting children who are non-blood relatives is still a very new concept in Uganda[102].

However, the Ministry of Gender, Labour & Social Development (MoGLSD) supported by United Nations Children Fund (UNICEF) set up an Alternative Care Task Force in 2011 to investigate the state of childcare in Uganda and develop a national Alternative Care Framework.

Despite government commitment to ensuring an alternative child care force in Uganda through MoGLSD, there has been continued increase in the international adoption industry which has led to a rapidly increasing number of baby and children homes, currently estimated to be over five hundred (500). However, these homes have been reported to be removing children out of families and communities and placing them into institutional settings under the watchful eye of the relevant institutions and gradually exploiting these children for economic reasons through child sponsorship schemes.[103]

From 2010 to 2011, there was a reported 400% increase in international adoptions from Uganda alone outlining the growing demand for Ugandan children. This has been explained

101 Baseline study on alternative care taskforce 2011 set by the MoGLSD and supported by UNICEF

102 Alternative care for children, Uganda ,a publication by government and civil society organisation

103 Baseline study on Alternative care task force 2011 set by the MOGLSD and supported by UNICEF.

by a significant growth in inter country adoptions from Uganda over the last 10 years. In 2001, there was only 1 case of adoption from Uganda to the United States. It increased to 54 cases in 2007, 207 in 2011, and in 2012 there were 240 cases of Guardianship Orders to US citizens (based in the USA) granted by the Ugandan Courts and Visas issued. This indicates that the trend is on the rise.[104] Domestically, Ugandans fear that children leaving the country are being exploited or abused[105].

There have been persistent media reports[106] calling for immediate government intervention in the adoption process and tightening of laws on adoption since many adoptions have challenges when proper precautions are not employed. It is against this background that an independent assessment of the management and handling of child adoption in Uganda was undertaken in order to identify the performance gaps and possible causes, and suggest recommendations for the improvement of the adoption process.

8.1.3 DESCRIPTION OF THE AUDIT AREA

The Department of Youth and Children is mandated to provide overall guidance on orphans and vulnerable children in Uganda. It does this through the implementation of the National Orphan Policy (NOP) and the National Strategic Programme Plan for Intervention (NSPPI) for the orphans and vulnerable children with the goal of scaling up effective programmes (of which adoption and childcare institutions are options); interventions to reach orphans and vulnerable children, either directly or through the household and communities in which these children live.

Mandate

The mandate of the Ministry of Gender, Labour and Social Development is derived from the 1995 Constitution of the Republic of Uganda, Chapters 4 and 16 which is to: "empower communities to harness their potential through skills development, labour productivity and cultural growth." The constitution advocates for protection and promotion of fundamental rights of the poor and other vulnerable groups as well as institutions of traditional or cultural leaders.

Vision and Mission Statement

Vision

"The vision for the ministry, which states the ultimate long term goal of the sector, is: "a better standard of living, equality and social cohesion, especially for poor and vulnerable groups in Uganda."

Mission

The mission is "creation of an enabling environment for social protection and social transformation of communities"

Specific Objectives

The objectives of the Youth and Children Affairs Department are[107]:

i. To formulate and review relevant guidelines, programmes, policies and laws for the children;

ii. To coordinate and network with stakeholders on issues related to children;

iii. To promote participation of the children in national development programmes

iv. To support training of children service providers;

v. To ensure that initiatives, programmes, policies and laws address concerns of children.

104 Challenges of inter country adoptions in Uganda (MOGLSD)

105 Baseline study on Alternative care task force 2011 set by the MOGLSD and supported by UNICEF.

106 The daily monitor September 19th 2013,Newvision may 5th 2013, Watch "World's Untold Stories: Adopting Africa" on CNN International on Friday March 1 2013at 11.30 ET, Saturday 9 a.m. ET and 4.30 p.m. ET, and Sunday at 5.30 a.m. and 11.30 p.m. 2013

107 Ministerial Policy Statement 2011/2012

Activities of the Youth and Children Affairs Department

The activities related to children affairs include the following[108]:

- Keeping well-structured records.
- Doing own fact finding research.
- Report writing on the wellness of children.
- Attending court sessions.
- Enforcing the children home rules.
- Administering community service orders.
- Tracing and resettling of children and playing an active part in the procedures concerning fostering and adopting children as well as in probation service issues.

Funding of the Youth and Child Affairs Department

The Department of Youth and Child Affairs of MoGLSD is funded by GOU through the central government budget. During the period under review, a total of UGX 1.807 billion was released by government to address matters as detailed in table 55 below;

Table 55: Expenditure of Youth and Child Affairs Department for financial years 2010/11 to 2012/13

Year	Recurrent Expenditure (UGX)	Development Expenditure(UGX)	Totals (UGX)
2010/2011	57.7m	734m	791.7m
2011/2012	-	587.4m	587.4m
2012/2013*	28.92m	399.35m	428.27m
Total	**86.62**	**1720.75**	**1,807.37**

Source: MoGLSD Draft and Audited Accounts

8.1.4 AUDIT OBJECTIVE

The main audit objective was to evaluate the oversight function of the Adoption process and assess the extent to which the child adoptions were undertaken in accordance with the existing legal framework.

The specific objectives of the audit were to establish whether the MoGLSD had:

a) Formulated and reviewed the relevant guidelines, programmes, policies and laws to aid the adoption process of vulnerable children in Uganda.

b) Coordinated and networked with all key stakeholders within and outside government on matters related to both local and international adoption of vulnerable Ugandan children.

8.1.5 AUDIT SCOPE

The audit focused on the Department of Youth and Children Affairs in the Ministry of Gender, Labour and Social Development which is directly responsible for monitoring and evaluation of children activities; High courts responsible for granting adoption orders; Uganda Registration Service Bureau responsible for the registration of adoption orders and legal guardianship; and the chief magistrate courts in selected districts

108 Operational Manual for Youth and Probation and Social Welfare Officers

which are responsible for issuing orders for domestic adoption.

The audit covered three (3) financial years, FYs 2010/11, 2011/12 and 2012/13.

8.1.6 AUDIT METHODOLOGY

Sampling

Six (6) High Courts in the districts of Kampala, Jinja, Kabarole, Mbale ,Mbarara, Masaka; District Headquarters of Mityana, Wakiso, Bugiri, Arua, Mbale, Kabarole, Jinja and Lira; Magistrate courts of Lira and Arua were selected according to the number of children adopted.

Data collection methods

Various methods were used for collecting data from the field and these included: document review, interviews and physical inspections.

Document Review

Documents were reviewed to obtain an understanding of the adoption process.

Interviews

The audit team conducted 19 interviews which were aimed at assessing the management and handling of adoption process and also to corroborate information obtained from the other sources.

Observation/ Field inspections

Field inspections were conducted in different districts, magistrate courts, and adoptive parents' homes to establish the consent of the biological parents of the adopted children.

Data Analysis

The information collected was analysed to identify the key relationships that existed in the data obtained from the courts on adoption and guardianship cases over the last three financial years.

8.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In this section, findings on the management and handling of child adoption process in Uganda are presented in reference to the audit objectives.

8.2.1 LEGAL FRAMEWORK FOR ADOPTION PROCESS IN UGANDA

Uganda is a signatory to the United Nations Convention on the Rights of a Child and to the African Charter on the rights and welfare of the child[109]which both state that every child shall be entitled to the enjoyment of parental care and protection and shall whenever possible, have the right to reside with his or her parents. The said legislation further requires signatory member states to undertake the necessary steps, in accordance with their Constitutional processes, to adopt such legislative or other measures as may be necessary to give effect to the provisions of the Convention and Charter aimed at recognizing the rights, freedom and duties of its children.

The Constitution of the Republic of Uganda, 1995 (as amended) recognises that children ought to be cared for by their parents or those entitled by law to bring them up. This provision gave birth to the enactment of the Children's Act Cap 59[110]which is intended to promote and protect the welfare and rights of children in Uganda. The Act[111] gives the Minister responsible for children's welfare the mandate to make regulations, generally, to operationalize the Act and for carrying out the provisions and purposes of the said Act better.

109 OAU Doc. CAB/LEG/24.9/49 (1990)

110 Laws of the Republic of Uganda; Revised Edition, 2000

111 Section 110

Rules and Regulations to guide the adoption process

The audit findings noted that whereas the Ministry had managed to develop regulations for approved homes, the regulations particularly referring to the adoption[112] of children in Uganda had not been developed by the time of audit (February 2014). A case in point shows that out of the possible nine (9) parts of the Act, regulations had only been developed for one part of the Act (part viii) relating to approved homes as illustrated in table 56 below:

Table 56: Status of regulations formulated for parts of the Act Cap 59

No.	Parts of the Act	Regulations developed
1	Rights of the Child – Part II	No
2	Support for Children by Local Authorities – Part III	No
3	Family and Children Court – Part IV	No
4	Care and Protection of Children – Part V	No
5	Foster Care Placements – Part VI	No
6	Adoption - Part VII	No
7	Approved Homes – Part VIII	Yes
8	Parentage of Children – Part IX	No
9	Children Charged with Offences – Part X	No

Source: OAG Analysis of the Children's Act Cap 59

Management attributed the failure by the Ministry to derive regulations specific to child adoption to the fact that adoption in its current form in Uganda recognises the best interest of the child, and, therefore, would be very difficult to quantify violations that did not consider the best interest of the child before sanctions can be defined for the purpose of this Act.

Audit, however, attributed the absence of regulations to the Ministry's reluctance to formulate the regulations as there were no records of attempt by the Ministry to have such regulations. For example, for the last sixteen (16) years,[113] the Act has been in force, no documented evidence was availed by the Ministry showing steps or initiatives, such as: consultative meetings with stakeholders, existence of a relevant working committee: draft regulations and minutes stating commitment from management towards developing the necessary regulations, by the time of audit (February 2014).

As a result of the failure to develop regulations, the Ministry has not been able to develop procedures or guidelines on key provisions within the Act relating to child adoption. A case in point is where Guardianship Orders are being used as an input to determine what constitutes the best interest of the child; courts continue to rely on their discretionary powers to exercise judicious decisions to the persons being granted child adoption.

Governing Principles for legal guardianship

Audit noted through documentary reviews that the Ministry had not formulated governing principles for legal guardianship[114] despite there being applications in the family courts for legal guardianship orders by prospective

112 PART VII – Section 44-55 (ADOPTION)

113 Act come to force 1st August 1997

114 The Act has no express provisions empowering courts to make legal guardianship Orders

adoptive parents to foster vulnerable children. The governing principles, if formulated, would have set the procedures and/or guidelines upon which the courts awarding the legal guardianship orders would have based their decisions.

In the period (2009 to 2012) there were seven hundred and ninety six (796) applications for legal guardianship orders in the High Court Family Division – Kampala alone as seen in table 57 below representing 85.7% of the total petitions this court received in matters relating to adoption and guardianship.

Table 57: Total petitions to the family court division on children matters

No. of court cases	2009	2010	2011	2012	Totals	%age	Average
Adoption cases	29	62	16	26	133	14.3	33
Guardianship cases	177	155	253	211	796	85.7	199
Total	**206**	**217**	**269**	**237**	**929**		

Source: OAG Analysis of family court adoption/legal guardianship files

From the above table, there was an average of one hundred and ninety nine (199) applications for guardianship as opposed to the thirty three (33) annual applications for outright adoption per year.

Audit attributed the Ministry's failure to derive governing principles for legal guardianship to its perception that the Children's Act (Cap.59) had reformed and consolidated the law[115] relating to children and that it had made sufficient provisions for the care, protection and maintenance of children and therefore saw no need for guidelines.

Consequently, there is no uniform issuance of the guardianship orders currently being awarded to applicants. For instance, document review of twenty two (22) adoption applications filed with the family division court of Kampala alone revealed that the conditions in the guardianship orders awarded in the period under review differed from each other significantly.

Similarly, in the absence of legal provisions for the procedure and practice of courts and all people involved in the grant and eventual use of legal guardianship orders, it has become a venture full of risks for children[116]. For instance, Audit established that legal guardianship had allowed people that do not qualify for adoption orders to proceed and get adoption orders outside the country. From the table above, 70% of the total guardianship orders awarded were for an onward grant of permission to proceed and adopt in the original country of the prospective adoptive parent/ applicant.

Management Response

The Ministry acknowledges the gaps identified in the rules and regulations for child adoption, new rules and regulations will be developed as soon as possible.

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115 i. Fostering of children by their relatives

ii. Fostering of children by people resident in Uganda whether citizens or non-citizen in Uganda

iii. Adoption of children by families of people whether citizens or non-citizens of Uganda but who have stayed in Uganda for at least three years.

116 "LEGAL GUARDIANSHIP OUTSIDE UGANDA, A DILEMMA FOR COURTS" - The prospect of a needy child enjoying benefits but with no assurance of protection by Hon. Justice Moses Mukiibi, Deputy Head – Family Division High Court of Uganda, Kampala

Conclusion

Whereas the Act provides for safeguards[117] for children's welfare, legal guardianship was omitted by the legislature during its initial formulation. The Act in its present form, has no express provisions empowering courts to make legal guardianship orders. The Ministry responsible for Youth and Children has failed to develop legal provisions for the procedure and practice of courts in awarding legal guardianship orders despite the Act having been in force for 16 years by the time of audit (March 2014).

In the absence of regulations to operationalize the Act and guidelines on key provisions within the Act, reliance on discretionary powers to exercise judicious decisions on matters relating to child adoption and thus guardianship orders being granted on different conditions will continue to abound, which could be exploited by unscrupulous people for their own and not the children's benefit.

Recommendation

The Ministry should ensure that the relevant and appropriate rules and regulations regarding the child adoption process are formulated to operationalize the Children's Act.

8.2.2 ELIGIBILITY REQUIREMENTS AND LEGAL CUSTODY PROCESS FOR CHILD ADOPTION IN UGANDA

Following of Adoption procedures

Sections 45 to 46 of the Children's Act Cap 59, spells out the conditions which must be fulfilled by prospective adoptive parents before filing for an adoption order and these include: Age: One should be 25 years old and 21 years above the child; Residency: One should have resided in Uganda for a period of at least 36 months, in case of international adoption; Marriage: Married couples should adopt jointly; one should show proof of financial stability and should not have a criminal record.

Section 46 of the Act specifically provides that in exceptional circumstances, a person who is not a citizen of Uganda may adopt a Ugandan child if he or she (prospective adoptive parent) has stayed in Uganda for at least 3 years, and/or has fostered a child for at least 36 months under the supervision of a probation and welfare officer who is required to submit a written report to court on the fostering period.

Audit noted, through document review, that adoption orders were granted to adoptive parents who did not necessarily meet all the eligibility requirements as set out in the Children's Act. Twenty nine (29) out of ninety six (96) application files for adoption orders reviewed for the period 2009, 2010 and 2011 representing 30% of adoption orders granted by the family division of High Court in Kampala, did not meet all the eligibility requirements.

The adoption files reviewed had no evidence of Care Orders[118] issued by court to prospective adoptive parents proving initial fostering of the said children in the adoption application.

It was also very difficult for audit to establish whether the period stated in the application file was what it took the prospective adoptive parent to foster a given child because there was no record on file to prove so. However, on average, it took an adoptive parent 19 days to foster a child and be granted an adoption order for a given child with an exception of an application[119] that stretched to 123 days.

Audit attributed the granting of adoption orders to ineligible prospective parents by the courts to the Probation and Welfare Officers who were not thorough and vigilant in ensuring that all the eligibility requirements and evidence for child adoption were in place prior to adoption orders being granted by the courts. The

117 Made provisions for the care, protection and maintenance of children

118 Usually issued by Court for a period running up to a maximum of 36 months

119 HCT-00-FD-FC-0092-2010 applied for on 21/5/2010 and granted on 22/9/2010

reports from the Probation and Social Welfare Officers[120] ought to have been a result of thorough investigation on the background of the child to ascertain his or her true biological parents, or where they are dead, the child's blood relatives and should have clearly stated recommendations as to what amounted to the best interest of the child but this was not the case.

For instance, of all the twenty nine(29) sampled applications that were granted adoption orders in the period 2009,2010 and 2011, only thirteen (13) adoption applications had written reports from the Probation and Social Welfare Officers, thirteen (13) had sworn affidavits in the place of the required reports while three (3) had neither. The Ministry has not prescribed the roles its Department of Youth and Children Affairs ought to have played in as far as verification of eligibility of prospective adoptive parents are concerned and, more so, when it comes to international adoption of Ugandan children.

Consequently, children in need of protection and welfare could be denied the right to;-

The enjoyment of parental care and protection and, whenever possible, the right to reside with their parents and or blood relatives since investigations which should have been conducted on the background of the child to ascertain his or her true biological parents, or, where they are dead, the child's blood relatives are not being done.

Similarly, where an adoptive parent was granted an adoption order without necessarily going through the period, of having stayed in Uganda for at least 3 years, and/ or having fostered the child for at least 36 months under the supervision of a Probation and Welfare Officer, as prescribed in the Act, it becomes very difficult for government to gain assurance of the stability of the relationship between the adoptive parent and the child.

Management Response

120 In adoption cases, the District Probation and Social Welfare Officer has an important role in investigating and submitting a report to the court (including recommendations in the best interest of the child)

- **The Ministry has developed the National Framework for Alternative Care which is pending approval by the Ministry's Top management; besides the legal mechanism for the framework has been integrated in the children's amendment bill which is being drafted by the parliamentary council.**
- **Carrying out thorough investigation into a child's background prior to the formal adoption process is the mandate and core function of Probation officers; however the officers face challenges in implementation of their mandate arising from inadequate budgetary provisions and logistical support by the districts, the Ministry intends to lobby the districts to ensure that welfare services under which the function of child adoption falls is given due attention.**

Conclusion

Applications of provisions relating to adoption within the Act are not being effected. The Ministry that should have picked up on such occurrences has remained silent as the courts continue to make prudent judgments based on the inadequacies within the information being provided by the Probation and Welfare Officers who are an integral part of the adoption process. As a result, prospective adoptive parents who do not meet the eligibility requirement are being granted adoption orders.

Recommendations

- The Ministry should expedite its proposals with the National Framework for Alternative Care and ensure that all the necessary legal requirements for child adoption are complied with.
- The Probation and Welfare Officers should carry out thorough and transparent investigation into the child's background to ensure that all eligibility requirements have been complied with and the child's best interest taken care of. Thus the Ministry should continuously sensitise the district officials on the importance of facilitating the functioning of the Welfare services in their districts so as to enable the Probation Officers conduct thorough investigation into the background of a child before they are adopted.

8.2.3 MATCHING PROSPECTIVE ADOPTIVE PARENTS WITH A CHILD

Performance of probation and welfare officers in the adoption process

The Children Act 2009, section 32, outlines the special duties of the Probation and Social Welfare Officer in relation to care orders. Further, values and principles of work (2.3)[121] in the operations manual for Youth and Probation and Social Welfare Officers (2010), advocates for the strengthening of family units; placing of children in suitable alternative care in the absence of the natural family, particularly fostering; exploration and use of community options before committing a child to an institution[122] and emotional and/or material assistance, among others, by Probation and Social Welfare Officers.

In case of International Adoptions, Section 45(5) of the Act requires the Probation and Social Welfare Officer to submit a report to assist the courts in considering the application for adoption orders. In this regard, the Probation and Social Welfare officer in the region where the child resides monitors and records the progress of the adoptive family during the 36-month fostering period.

It was established that the District Probation and Welfare Officers were neither carrying out adequate fact finding research nor preparing welfare reports[123], nor were they tracing or resettling children to their families or communities of origin. In addition there was no evidence that the Probation and Welfare Officers had implemented or promoted proposals in the alternative care[124]system, such as; foster placement, kafalah[125], domestic adoption or, if necessary, placement in suitable institutions for the care of children, as suggested by Government (MOGLSD), before recommending a child for an outright international adoption as shown in the table 58 below.

Table 58: Performance of DPSWOs over selected performance indicators

Statutory Duties District Probation Officers visited	Keeping of well-structured records	Doing own fact finding research	Writing reports	Attending court sessions	Tracing and resettling of children
Mityana	YES	YES	YES	YES	YES
Mbale	YES	YES	YES	NO	YES
Bugiri	NO	NO	NO	NO	NO
Arua	NO	NO	NO	NO	NO
Jinja	NO	NO	NO	NO	NO
Lira	YES	NO	NO	NO	NO
Kabarole	NO	NO	NO	YES	NO
Mukono	NO	NO	NO	YES	NO

Source: OAG field visits and documentary reviews

121 A family is the best place for a child's growth and development.

122 Even then institutional care shall only be temporary, resettlement being a priority

123 Including recommendation in the best interest of the child

124 Describes the care options available to children who are temporarily or permanently separated from their parent(s),or deprived of their family environment, or in whose best interest cannot be allowed to remain in that environment (Final Draft of Uganda's National Framework for Alternative Care - MOGLSD)

125 Care system (Muslim practice) where individuals in the community voluntarily care, protect and educate a child while retaining its name, family and linage connection.

In addition, document review of twenty nine (29) files out of ninety six (96) applications for adoption orders for the period 2009,2010 and 2011 revealed that, of the adoption orders granted, 45% were based on affidavits sworn by the District Probation and Social Welfare Officers (DPSWO), 45% were based on reports prepared by the DPSWO while 10% had neither a progress report prepared nor an affidavit sworn to that effect.

Further, audit established that Probation and Social Welfare Officers whose jurisdictions of operation were different from those of the Child's place of origin submitted foster progress reports and affidavits on behalf of children whom they neither supervised during growth nor foster care which contravenes the Children's Act. In such circumstances, these probation officers could not have obtained adequate knowledge on the child's history and background to aid court's decision in an application hearing for an international adoption.

A case in point, eight (8) out of the twenty nine (29) files revealed that foster progress reports and affidavits had been sworn by District Probation and Social Welfare Officers whose jurisdictions were different from those of the origin of the children up for adoption hearing as illustrated in table 59 below.

Table 59: Work place of DPSWO and location of child origin

S/N	Case No.	Orphanage/ Babies home	Location Of children's Home'	work place of DPSWO who handled adoption case	District of Origin of adopted child
1	0108-2010	Sanyu Babies Home	Rubaga Division	Kampala District	Wakiso District – Sissa S/C
2	0113-2010	Sanyu Babies Home	Rubaga Division	Kawempe Div.	WakisoDistrcit-Kanyanya
3	0165-2010	Sanyu Babies Home	Kampala-Mengo	Rakai District	Kampala- RubagaDiv
4	0038-2010	Agape Children Village	Mukono	Mukono District	KabaleDistrcit-Kamwezi s/c
5	0084-2010	Mercy Home of Children	Wakiso	NebbiDistrcit	Nebbi Town Council
6	0083-2010	Uganda Babies Home	Entebbe	Kampala Distrcit	WakisoDistrcit-Entebbe
7	0195-2010	Nsambya Babies Home	Makindye	Makindye Division	Wakiso Dist.-katale-Kajjansi
8	0145-2010	OASIS Children's Home	K'la-Kabowa	NOT SEEN	Nakawa Div.-Mbuya Parish

Source: OAG analysis of selected family court files

Audit attributed the inability by District Probation and Social Welfare Officer's to carry out their statutory obligations to lack of prioritization of their functions by their respective districts of attachment.Districts on average spent only Shs.46,778,344 million which is only 0.02% of their total funding in the year 2011/12 alone on all activities performed by the district community services department which, incidentally, covers aspects relating to the care of homeless children in need of protection in their jurisdiction among other activities as seen in table 60 below. Audit could not readily verify how much money the said local governments allocated to specific activities relating to the welfare, placement, monitoring, counseling and fact finding research on all children in need of care and protection due to lack of relevant records by the said departments of the respective district local governments.

Table 60: Funding to the DPSWOs for the period 2011/12

Districts	Total Revenue	Local Revenue	Community Based Services	Allocation to DPSWOs	% age of PSWOs to CBS
Wakiso	39,866,996,561.00	1,361,931,779.00	718,872,205.00	5,351,000	0.74
Mityana	17,566,254,000.00	222,788,000.00	380,100,000.00	571,000	0.150223625
Lira	22,903,525,105.00	441,919,727.00	157,628,162.00	113,113,062	71.75942456
Arua	42,192,709,212.00	667,009,941.00	207,615,600.00	50,105,000	24.13354295
Mukono	22,679,786,728.00	556,450,315.00	325,507,797.00	181,752,497	55.8366032
Mbale	23,822,926,158.00	332,806,439.00	140,522,976.00	120,000	0.085395288
Jinja	22,108,318,402.00	431,448,891.00	374,673,872.00	90,000	0.02402089
Bugiri	17,514,321,663.00	159,276,141.00	264,119,877.00	23,124,200	8.755191113
Total	**208,654,837,829**		**2,569,040,489.00**	**374,226,759.00**	**161.49**
Average				**46,778,344.88**	**20.18609525**

Source: OAG analysis of funding to DPSWOs by selected districts

Similarly, the Department of Youth and Child Affairs at the Ministry of Gender, Labour, and Social Development has no requirement in its institutional set-up for the District Probation and Welfare Officers to furnish it with progress reports and or statistics on the activities relating to children welfare ,care and protection nor has it managed to supervise the inadequacies of such officers in order to brace itself for the realities on ground to consider while formulating relevant guidelines and protocols to be followed and this hindered a well streamlined and functional system for District Probation and Social Welfare officers in conducting their duties in ensuring that the best interest of Uganda's desperate and vulnerable children is protected.

Consequently, the Probation Officers who are supposed to aid courts in the hearing of adoption and legal guardianship applications were not able to provide courts with the relevant information[126] on which the courts could base their judgment as to what amounted to the best interest of the child.

Management response

- **Probation and social welfare is a highly technical function which needs close professional supervision; under the Government decentralization process, probation officers are recruited and remunerated by the districts and therefore report and account directly to the district. Under the government restructuring process there is a proposal to centralize probation and social welfare services.**
- **Due to the fact that probation and social welfare services do not fall under the assessment area of district authorities, The Ministry is lobbying for probation and social welfare services to be considered as assessment areas for the districts and be allocated more funding.**

Conclusion

The MOGLSD, in developing the Operation Manual for Youth and Probation and Social Welfare Officers, did not allocate itself, through its Department for Youth and Children Affairs, responsibility in as far as the conduct

126 Well-structured records, Fact finding research on the child,

of District Probation and Social Welfare Officers are concerned. Being the central government entity with a mandate[127] to assume all residual roles affecting the care, protection and promotion of the welfare of all vulnerable children in Uganda[128]this should have been done. Consequently the Ministry has had no effective control and supervision on the activities of the District Probation and Social Welfare Officers in regard to management of child and youth affairs in the Districts.

Recommendations

- The Ministry should establish a central coordination agency with clear roles and responsibilities for coordinating, monitoring and evaluating the performance of District Probation and Social Welfare Officers.
- The Ministry should sensitize all stakeholders especially the Local Governments about the importance of allocating adequate budgetary provisions for social welfare and probation activities in the Districts.

8.2.4 REGISTRATION OF ADOPTED CHILDREN

Record keeping by the URSB

Section 54 of the Children's Act requires the Uganda Registration Service Bureau to maintain a register of adopted children in which all their particulars are registered.

Audit noted that the Uganda Registration Service Bureau had maintained a register although the register was not updated with all the court orders granted. A review of the adoption register indicted that a total of three hundred and thirty three (333) adoptions had been captured in the register for the period under review but that only two hundred and eighty nine (289) had full registration with certificates issued in recognition of the registration of the adoption as illustrated in the table 61 below:

Table 61: Registration of adoption by the URSB

Year	2009	2010	2011	2012	2013	Total
No of Adoptions	78	107	45	51	52	333
Issued certification	65	97	39	49	39	289

Source: Analysis of family court files and registration records from the URSB

Audit considers this as very low compared to the total Adoption orders granted annually. For instance, according to a publication by the Bureau of Consular Affairs[129] Adoptions from Uganda to the USA alone stood at five hundred and seventy six (576) in the period under review.

It was also noted that in cases where a registration was made, not all particulars pertaining to the adopted child together with that of his or her adoptive parent were captured. Information relating to the sex of the adoptive parents, country of destination, for the case of international adoption, origin of the child and adoption application number among others, were missing.

Audit attributed the failure by the Uganda Registration Service Bureau (URSB) to maintain an up to date adopted children's register to the reluctance by the successful applicants to submit all the adoption orders

127 The Ministry is enjoined to operationalize Chapter four (4) of the Constitution (especially Articles 31 through 42) which focus on affirmative action and promotion of fundamental human rights of the people of Uganda, with particular focus on marginalized groups such as children (MOGLSD Operations Manual 2010)

128 Based on the international obligations as a signatory of the UN Convention of the rights of the child, the OAU Charter on the rights and Welfare of Children, the Constitution of Uganda and the Ugandan Children's Act (MOGLSD Operation Manual 2010)

129 U.S. Department of State, Annual Report on International Adoption www.Adoption.State.gov

issued by Court to the Registrar of birth and death for registration as required by the regulations.

Consequently, Government has no complete record on the numbers of adopted children in Uganda. As a result, it has become difficult for Government to ascertain that the best interests of these children as provided for by the Constitution of the Republic of Uganda, 1995, are being upheld by the adoptive parents.

Management response

- The Ministry will follow up with the Uganda Registration Services Bureau in ensuring that an up to date register for all adopted children in maintained and kept in place.
- The Ministry has made a provision under the National Framework For Alternative Care that certificates be issued for adoption by the Ministry as final clearance for children to be taken out of the country; besides in the children's Amendment bill it is stated that guardianship should not used as a means for intercountry adoption.

Conclusion

Adoption orders in Uganda are only submitted to be registered at the discretion of the adoptive parents mainly because it is a requirement by their respective embassies before they are allowed to migrate with the child in question in total disregard of the provisions of the law that makes it mandatory for every adoption.

There are more adoptions granted every year by the courts that are not recorded by the state. In absence of records on adopted children, the MOGLSD has failed to plan follow-ups on the adoptions granted to ensure that the conditions under which the orders granted are being met by the adoptive parents, especially in as far as their care and protection is concerned.

Recommendations

- The Uganda Registration Service Bureau should maintain an up to date register of all adopted children, including all particulars pertaining to the respective adoptive parents.
- The Ministry should ensure that registration certificates for adoption are the last requirement for a legally recognized adoption of children in Uganda and that this should form part of the immigration clearance for such a child before he or she is allowed to leave the country as regards to international adoptions.

8.2.5 POST ADOPTION REPORTING

Monitoring the care and protection of children

Article 24 (f) of the African Charter on rights and welfare of the child requires state parties to establish a mechanism to monitor the well-being of the adopted child. The mechanisms developed would help not only what is currently happening to the child, but also the child's health and development, and the wider family and environmental context in which it is placed.

Audit noted, through document review that the Ministry had not established a tracking mechanism to monitor the welfare of the adopted children in Uganda during the period 2009, 2010 and 2011

For instance, audit noted that in the period under review, there were seven hundred and nineteen (719) applications for both adoption and guardianship orders granted by the high court family division of Kampala as shown table 62 below.

Table 62: Adoption and guardianship cases granted

Order granted	2009	2010	2011	2012	Total
Adoption	17	51	10	18	96
Guardianship	133	140	179	171	623
					719

Source: OAG Analysis of family court cases.

However, a review of three hundred (300) of these files showed no evidence that relevant government bodies had made a follow up on the granted Orders to make sure that the conditions therein are adhered to by adoptive parents or legal guardians.

As illustrated from table 63 below**,** Audit noted that although 20% of the expected six hundred (600) reports had been submitted by adoptive parents to the Registrar, High Court- family Division Kampala on the welfare and condition of the children under their custody, there was no system in place by either the courts or MOGLSD to follow-up on the assertions made by the adoptive parents about the welfare of the children.

Table 63: Post adoption reports submitted by adoptive parents

Particulars	2009	2010	2011	2012	Total	%age
Total Orders granted	150	191	189	189	719	
Files Reviewed	75	75	75	75	300	
Expected reports on file4	150	150	150	150	600	
Reports Prepared	17	28	32	41	118	20
Not Prepared	133	122	118	109	482	80

Source: OAG Analysis of family court adoption & legal guardianship files

The Ministry attributed its inability to establish a tracking mechanism for monitoring the welfare of adopted children to lack of resources, such as, funding and staff.

Audit attributed the ministry's failure to develop a tracking mechanism to lack of prioritization, considering that only 0.28% of its total budget meant for social protection for vulnerable groups[130] had been allocated to the output of monitoring the care and protection of children as illustrated in table 64 below. A review of the ministry's annual work plans indicated that the Ministry had not planned for the follow up of adoption and or guardianship orders granted.

130 I.e. Empowerment, support, care and protection of vulnerable groups and Monitoring and Evaluation of programmes for vulnerable groups;

Table 64: Budgeted expenditure for Monitoring of Vulnerable children

Year	Social Protection for Vulnerable children 000'	Total allocation for programme 5; Item of Monitoring and evaluation 000'	%age Allocation of Monitoring to the Vote Function(Social Protection for Vulnerable children
2010/2011	8,147,892	-	
2011/12	10,841,340	107,457	
2012/13	38,380,720	57,383	
Total	**57,369,952**	**164,840**	**164,840/57,369,952*100** **= 0.28%**

Source: OAG Analysis of expenditure for Social Protection

In the absence of systems to aid in the tracking of adopted children from Uganda, it was difficult for audit to give assurance that the children's fundamental rights[131] have been respected.

Management response

Once a child has been adopted the child becomes a citizen of the new destination country and the new country has to provide for the necessary protection and care to the child. However if a child is given away under legal guardianship order there is a need for maintaining linkages, care and protection because the child is still a Ugandan.

Conclusion

The children for whom Orders have been granted, whether for adoption or legal guardianship, have not been followed up to give assurance as to their protection and welfare. This may result in children being abducted, or trafficked.

Recommendation

The Ministry should come up with a mechanism in which the welfare of children is monitored and should consider prioritizing matters relating to the care and protection of adopted children or those on legal guardianship.

OVERALL AUDIT CONCLUSION

Although the Ministry of Gender, Labour and Social Development and the related agencies are trying to ensure that child adoption in Uganda is carried out within the existing legal framework there are still loopholes and gaps in the laws governing child adoption that must be addressed by Government to ensure that the best interest of the child is kept paramount. The Ministry should pursue the proposed amendments to the law and regulations to ensure full protection of rights of children.

131 Education and guidance, immunization, adequate dieting ,clothing ,shelter and medical attention

9

9.0 IMPLEMENTATION OF THE AGRICULTURAL CREDIT FACILITY

9.1 INTRODUCTION

9.1.1 BACKGROUND

The Agricultural Credit Facility (ACF) Scheme was set up by the Government of Uganda (GoU) in 2009 in partnership with Participating Financial Institutions (PFIs)[132] to support agricultural expansion and modernisation/mechanisation through the provision of subsidised medium and long-term financing for projects engaged in agriculture and agro-processing. The loanable funds under the scheme were to be provided by the Government of Uganda (GoU) and PFIs. The ACF financing was targeted for acquisition of agricultural machinery and equipment for agro-processing; post-harvest handling equipment and storage facilities.

9.1.2 MOTIVATION

The Government of Uganda (GoU), recognising the fact that more than 66% of its population is employed in agriculture, identified the agricultural sector as one of the sectors with the greatest potential to reduce poverty and significantly contribute to the overall economic growth of the country[133].

The agricultural sector has been one of the government priorities for increased public investment since FY 2009/10[134]. To mobilize the required resources to stimulate growth and productivity in the agricultural sector (hitherto perceived by financial institutions as risky for lending purposes), GoU initiated the Agricultural Credit Facility (ACF) scheme with the aim of providing medium and long term loans to farmers and projects engaged in agriculture and agricultural processing/value addition.

Despite the commitment by GoU to promote sustainable economic growth through investment in the agricultural sector such as the ACF, the sector's contribution to GDP has declined over the years from 23.9% in FY 2009/10 to 22.9% in FY 2011/12[135].

By the end of FY 2012/13, GoU had disbursed UGX 63 billion to Bank of Uganda (BoU) for onward lending to eligible beneficiaries under the ACF scheme. However, there were challenges reported in the implementation of the scheme resulting from limited transparency, inadequate publicity and high collateral requirements, leading to inadequate access to the funds of the scheme[136].

132)Commercial banks, credit institutions, Micro Deposit -Taking Institutions (MDIs) as well as Uganda Development Bank Ltd (UDBL) all referred to as the Participating Financial Institutions

133 UBoS Statistical Abstract, 2012 pg. 17

134 NDP 2010/11-2014/15DP 2010/11 – 2014/15

135 NDP 2010/11-2014/15

136 MOFPED Annual Budget Monitoring Report 2011/12 page 13.

It is against this background that an independent assessment of the implementation of the ACF scheme was undertaken by the Office of the Auditor General to identify performance gaps, possible causes and suggest recommendations for the improvement of the performance of the scheme.

9.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

ACF is a refinance scheme administered under the Memorandum of Understanding (MoU) signed in 2009 between the GoU and PFIs. This was intended to facilitate the provision of medium and long term loans to projects engaged in agriculture and agro-processing on more favourable terms than are usually available from the PFIs.

The eligible projects include; agricultural machinery, post-harvest handling equipment, storage facilities, agro-processing and any other related agricultural and agro-processing machinery and equipment. Agricultural inputs required for primary production are also considered, provided this component does not exceed 20% of the total project cost for each eligible borrower.

ACF operates on a refinance basis in that the PFIs disburse the whole loan amount to the client and then apply to BoU for the GoU contribution which is interest free. The Government contribution is deposited in an Escrow account held at Bank of Uganda (BoU) which administers its usage by the participating financial institutions (PFIs) through a capital account.

Legal Framework

The implementation of the ACF scheme is based on the MoU signed in October 2009, between GoU, (represented by MoFPED), BoU and the PFIs. According to the MoU, GoU set up the ACF for the purpose of supporting agricultural expansion and modernisation in partnership with PFIs.

Objective of ACF

The main objective of the scheme is to provide medium and long-term financing for projects engaged in agriculture and agro-processing especially to support agricultural expansion and modernisation/mechanisation.

Outputs of the scheme

i) Enhancing farmers and agro processors access to affordable credit facilities from PFIs.

ii) Increasing food production on a commercial basis and hence increasing food security.

iii) Increasing value addition to agricultural produce thereby leading to the improvement of farmers' income.

iv) Creating employment, increasing agricultural productivity and production.

v) Attracting lending to agriculture and agro processing sectors and increasing financial institutions' confidence in the agricultural sector.

vi) Reducing the risks in agricultural and agro-processing sectors.

ACF Implementing Structure

The ACF is a GoU programme under MoFPED which is administered by BoU (the Fund Administrator) through a Memorandum of Understanding (MoU). In BoU, the programme (scheme) is under the direct supervision of the Executive Director Finance (EDF) who is the focal person between BoU and the PFIs

Funding

The scheme is funded by GoU in partnership with PFIs. Since inception (October 2009) GoU and PFIs have contributed a total of UGX 63.1 bn and UGX 60.6 bn respectively as shown in Table 65 below.

Table 65: Funding

	Source of Funding			
FY	GoU (UGX)	PFIs (UGX)	Total (UGX)	Applicable Interest rate
2009/10	28,505,413,048	29,474,668,523	57,980,081,571	10%
2010/11	12,058,200,000	5,156,422,909	17,214,622,909	12%
2011/12	7,500,000,000	20,464,157,523	27,964,157,523	10%
2012/13	15,000,000,000	5,462,111,275	20,462,111,275	12%
Total	**63,063,913,048**	**60,557,360,230**	**123,621,273,278**	

Source: IFMS Reports and BoU financial records for ACF

9.1.4 AUDIT OBJECTIVE

The overall audit objective was to assess whether the ACF scheme was properly planned and implemented in accordance with the Memorandum of Understanding and recommended project management practices.

The sub -objectives of the audit were:-

a) To assess whether proper planning and project design was undertaken during the inception of the scheme.

b) To assess whether the overall implementation of the scheme was undertaken in line with the terms of the MoU, specifically with regard to funds disbursement, utilization, credit appraisal, monitoring and marketing.

9.1.5 AUDIT SCOPE

The audit covered GoU contribution to the ACF through the main players who are; Ministry of Finance, Planning and Economic Development, Bank of Uganda and the Participating Financial Institutions over a period of four (4) financial years (2009/10 – 2012/13).

9.1.6 AUDIT METHODOLOGY

To assess whether proper planning was undertaken for the project

Interviews were conducted with MoFPED and BoU officials with a view of obtaining an understanding of the planning processes undertaken during the initial design of the scheme.

It also involved review of documents such as the concept paper for the scheme, the MoU and correspondences between BoU and MoFPED and other relevant records.

To assess whether the implementation of the scheme was in accordance with the MoU

For purposes of undertaking the audit, a sample of (55) beneficiary projects were selected from the entire 213 beneficiaries who had accessed the scheme as at 30th June 2013 using the sampling criteria illustrated in Table 66 below.

Table 66: Sampling Criteria

Description	Number of projects out of the total population	No. of projects selected	Proportion to total population	Proportion to total value of loans disbursed (%)
Projects with loan amounts equal or above UGX 1 billion	44	44	21%	63%
Projects randomly selected with loan amounts below UGX 1 Billion.	169	11	5%	5%
Total	213	55	26%	68%

Source: OAG analysis of ACF master list beneficiaries as at 30th June, 2013.

Document Review

Various documents were reviewed to obtain an understanding of the operations of the scheme.

Interviews

A total of 47 interviews were conducted by the audit team with MoFPED, BoU, PFI officials and with the ACF beneficiaries. Details of interviews conducted with the various officials are as follows:

Six (6) interviews were held with MoFPED and BoU officials aimed at understanding the operation of the scheme and also to corroborate information obtained from the other sources.

Thirty three (33) interviews were conducted with ACF beneficiaries, and 8 interviews with PFIs.

Field inspections

During the audit, thirty three (33) beneficiary projects were physically inspected to assess the status of project implementation and photographs of project sites taken.

9.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The Agricultural Credit facility (ACF) is currently in its 4th year of operation and has continued to register improvement in its performance with the increased involvement of the Participating Financial Institutions (PFIs) with 16 PFIs currently participating, up from 11 PFIs in 2011.

Reported disbursements to beneficiaries also increased to UGX 118.5 billion (Bn) in 2013, up from UGX 50.46 Bn in 2011 contributed by both GoU and the PFIs. Records available show that a total of 213 beneficiaries have accessed the scheme with the key investment areas being: Agro-processing machinery, Tractors, farm equipment, Irrigation equipment, green house facilities, farm expansion and storage facilities.

In spite of these achievements, this study has identified some areas that require improvement.

9.2.1 PROJECT PLANNING AND DESIGN

It is good practice for a project of this nature to be undertaken in accordance with the project development cycle which emphasizes conceptualization, feasibility study, proposal development, funding, implementation, periodic reporting and evaluation.

Through documentary reviews and interviews, it was noted that the establishment of the scheme did not follow proper procedures. There were no records to indicate that a feasibility study and baseline surveys were undertaken during the design of the scheme.

The concept paper of the scheme was silent on how the objectives of the scheme were arrived at, the specific roles of key players involved, and the potential risks and mitigating measures pertaining to the implementation of the scheme.

The outputs of the scheme reflected in the concept paper also lacked clearly defined targets, performance indicators and timelines. In addition, there was no evidence provided during the audit that consultations were widely undertaken with relevant stakeholders such as Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), which is the ministry responsible for the development of the agricultural sector.

In addition, audit noted that the MoU required PFIs to make monthly recoveries from beneficiaries upon expiry of the agreed grace period yet their repayments to BoU are bi-annual. This implies that PFIs use public funds interest free over the ten months of the year when no remittances are made to BoU. Also, releases to the escrow account in BoU are capitalised and recorded by MOFPED as transfers to other government units and expensed immediately instead of recording them as grants such that upon closure of the scheme, any outstanding balances are credited on that account and finally remitted to the consolidated fund.

Inadequate consultation resulted into BoU being given the responsibility of monitoring and evaluation of the scheme; which according to BoU is not within their mandate.

In addition, as a result of failure to properly plan and design the scheme, gaps were noted in the MoU such as failure to define the role of MAAIF in the scheme, lack of guidelines on the time GoU contribution should be held on the Escrow account of the scheme before subsequent transfer to the capital account and lack of guidelines on how "reasonable costs" arising out of forceful recoveries from defaulting beneficiaries would be derived and charged by PFIs.

Management response

The basis for the ACF initiative was addressing the limited credit being availed to the agricultural sector as evidenced from the very minimal and unacceptably low share of commercial credit to private sector players engaged in agriculture. At the initiation of the ACF Initiative, lending to agriculture as a proportion of total credit to the private sector was dismally low.

Both MoFPED and MAAIF have roles to play in Agricultural Development. While MAAIF is responsible for the Agricultural Sector, MoFPED is also responsible for development financing. The Ministry of Finance held ministerial level discussions with the Ministry of Agriculture, Animal Industry and Fisheries, as a major stakeholder, together with the other stakeholders. While the Concept Paper was silent on how the objectives of the scheme were arrived at, a wealth of documentation pertaining to the dearth in agricultural financing had been made, including Agricultural financing as a key component of the Plan for Modernizing Agriculture. In addition, lending to agriculture by commercial banks was known to be limited based on the perceived risks in intermediating agricultural credit.

Audit Response

In spite of management's assertion that consultative meetings were held and that documentation on the scarcity of agricultural financing had been made, this documentation was still not availed to the audit team.

In addition the PMA that MoFPED used as the basis for initiation of the ACF scheme is part of the Government of Uganda's broader strategy of poverty eradication contained in the Poverty Eradication Action Plan (PEAP) of 1997 with many objectives, agricultural financing being a component. MoFPED should have used the PMA as a lead to planning and carrying out a feasibility study for the ACF and not solely relying on the PMA.

In the absence of documentation to back management's assertions, audit maintains its findings relating to project planning and design.

Conclusion

The ACF scheme was formulated without conducting an independent feasibility study and consultations with the relevant stakeholders leading to poor performance of the scheme.

Recommendations

- MoFPED should always undertake an independent feasibility study before establishing such schemes, as this exercise will provide insight regarding the viability of the scheme.
- MoFPED should consider conducting a comprehensive review of the MoU and ACF scheme to address challenges affecting its implementation.

9.2.2 DISBURSEMENTS

GoU and PFIs Contribution to scheme

The MoU (as amended) requires GoU and PFIs to make contributions to the scheme for use by PFIs to support agricultural expansion and modernisation. With the exception of the second year of the scheme, PFIs were expected to match the GoU contribution and by 30 June 2013, GoU and PFIs were expected to have contributed a total of UGX 270 billion towards the implementation of the scheme.

From the review of financial records, it was established that the total funding by GoU and PFIs amounted to UGX 123.62 bn representing 46% of the total expected contributions for the period under review as shown in table 67 below.

Table 67: GoU and PFI contribution to the Scheme

Source of Funding	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	Total
Expected Funding By GoU (UGX' bn) (A)	30	30	30	30	120
Actual GoU Funding (UGX' bn) (B)	28.51	12.06	7.50	15.00	63.06
%age	95%	40%	25%	50%	53%
Expected Funding by PFIs (UGX' bn) (C)	30	60	30	30	150
Actual Funding by PFIs (UGX' bn) (D)	29.47	5.16	20.46	5.46	60.55
%age	98%	8.6%	68%	18%	40%
Expected Funding by GoU and PFIs (UGX'bn) E = A+C	60	90	60	60	270
Actual Total Funding by GoU and PFIs (UGX' bn) F = B + D	57.98	17.21	27.96	20.46	123.62
Performance	**97%**	**19%**	**47%**	**34%**	**46%**

Source: OAG Analysis of Financial records for ACF

This was attributed to low disbursement performance by GoU and PFIs which stood at 53% and 40%, respectively for the period under review. GoU commitment towards funding the scheme was highest in the first year of the scheme (95%) but drastically declined in the subsequent years to 25% in the third year.

Failure by GoU and PFIs to adhere to funding commitments constrained the funding for agricultural lending under the scheme. For example, analysis of records showed that the total disbursements to beneficiaries amounted to UGX 118.5 bn representing 44% of the expected total disbursement for the period under review which impacted on the achievement of the scheme's objective of supporting agricultural expansion and modernisation. Details are shown in table 68 below.

Table 68: Total Lending under the scheme

Source of Funding	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	Total
Actual lending by BOU (UGX' bn)	24.997	0.854	16.030	16.094	57.975
Actual Lending by PFIs (UGX' bn)	29.475	5.156	20.464	5.462	60.55
Total Amount lent to beneficiaries (GoU and PFIs)	54.472	6.01	36.494	21.556	118.5
Target by both GoU and PFIs (UGX' bn)	60	90	60	60	270
Variance (UGX' bn)	5.528	83.99	23.506	38.444	151.5
Performance (%)	91%	7%	61%	36%	44%

Source: ACF Audited Financial Statements for FYs 2009/10 – 2012/13

This negatively impacted on the achievement of the objective of the scheme of supporting agriculture expansion and modernisation.

Management response

GoU contributions to the Agricultural Credit have been maintained at 100% in the recent past. However, BoU as Fund administrators, in the past advised MFPED the need for replenishments of the Government of Uganda (GoU) contribution as and when the need arose based on the applications received. The ACF being a revolving fund also enabled the Fund Administrator to plough back reflows into the system. So far the scheme has not had a funding gap. In this regard, GoU and the PFIs have not failed to achieve the target due to failure by the GoU to adhere to the funding commitment.

Audit Response

In the absence of a marketing strategy, the likelihood that prospective beneficiaries would not be aware of this lending facility and thus not take advantage of applying for this facility is high. With few applications being received, it is no wonder that the need for replenishments would resultantly be low too.

Conclusion

The partnership of BoU with PFIs did not adequately market the scheme leading to low absorption of funds which ultimately hampers the ACF's objective of supporting agricultural expansion and modernisation.

Recommendation

The GoU should devise appropriate measures to create awareness about the existence of the scheme if absorption of funds is to increase so as to meet ACF objective.

In addition, since the scheme follows a revolving fund principal, MoFPED should revise the anticipated annual remittances to the scheme to take into account funds remitted back into the scheme.

Transfers from the Escrow to Capital account

According to the MoU, funds should be transferred from the escrow account to the capital account with the approval of the authorised signatories to the account[137] for subsequent disbursement of GoU contribution to the PFIs

However, it was noted that UGX 20.8 bn was transferred from the escrow account to the capital account of the scheme without the authorisation of escrow account signatories who are the Accountant General and the Commissioner Financial Management Services. The transfers were made on the strength of authority letters from the Ministry of Finance as shown in table 69 below:

Table 69: Transfers from the Escrow Account

Date of Transfer	Amount (UGX)	Auditors Remarks
18-May-2010	5,799,434,400	Authorisation by PS/ST
25-June-2013	15,000,000,000	Authorisation by PS/ST
Total Transfers	**20,799,434,400**	

Source: Analysis of Escrow account bank statements (July 2009- June 2013)

The unauthorised transfer of funds was attributed to disregard of internal control procedures within BoU.

Overriding of controls over the escrow account poses a risk of diversion of the scheme's finances to non-eligible activities.

Management response

The transfers were all made on the strength of the authority letters from the Permanent Secretary, Ministry of Finance. Going forward, all funds transfer requests will involve the Accountant General who is the authorized signatory.

Conclusion

Unauthorized transfers of funds from the escrow account without following laid down banking procedures points to weaknesses in the internal control systems within BoU.

Recommendation

BoU should comply with laid down procedures for the management of the escrow account so as to mitigate the risk of possible diversion of ACF funds to non-eligible activities.

Disbursements from the Capital Account

According to the MoU, GoU's contribution to the scheme should be disbursed to PFIs through the capital account.

137 The Authorised Principal signatories to the Escrow account are: the Accountant General or Commissioner/ Financial Management Services/MOFPED; With any of the following:- Commissioner/Treasury Services department and Asst. Commissioner/Financial Management Services.

It was established that whereas there were requests for refinancing by the PFIs and disbursements made by BoU to PFIs, the disbursements were not reflected in the capital account bank statement for the period under review (Oct 2009 to June 2013).

Management explained that the capital account is used as a holding account to reflect the capital position of the scheme and not used to refinance PFIs. The UNIS control account is instead used to effect disbursements to PFIs.

Management further explained that this was the reason why the bank balance of the capital account as at 30 June 2013 remained at UGX 63.06 billion which matched GoU total contribution to the scheme over the audited period.

Audit however noted that although the UNIS account was used for refinancing PFIs; there should have been corresponding entries in the capital account to reflect the refinancing which was not the case.

With the current practice, BoU may not be in position to track disbursements to PFIs. It was also difficult to ascertain the bank balances of the scheme at the end of each financial year under review.

Conclusion

With the current arrangements, BoU is violating the MoU and may not be in position to monitor and trace the flow of ACF funds once transferred to the capital account.

Management response

The ACF capital account is a holding account that reflects cumulative remittances from the Government Escrow account for onward disbursement to the PFIs. This account is not meant to work like a bank statement as indicated in the report. Disbursements to the PFIs are tracked through the individual loan accounts of different PFIs. The scheme's cash balance at any one time is the difference between the balance on the Capital account and the outstanding loans disbursed and these accounts are reconciled on a regular basis. This is the standard normal accounting for all administered funds held at BoU.

The flow of funds from the capital account is tracked on the individual loan accounts opened in the General Ledger and these are reconciled on a regular basis.

Audit Response

Audit however maintains that a good accounting system is one that has the ability to aggregate all related transfers. With the current system, BoU cannot timely and easily ascertain the amount disbursed to respective PFIs, repayments made and outstanding balances without conducting individual reconciliations of subsidiary ledgers.

Recommendations

- BoU, as the fund administrator, should consider automating the scheme's accounting system for better management of ACF funds.
- BoU should capture all disbursement in the capital account as agreed upon in the MoU because this makes it easy to trace movement of funds. If this is not possible because of compatibility issues with the BoU accounting systems then BoU should ensure that the necessary changes that permit these practices are made to the MoU.

Commitment of funds by BOU

Clause 2.2 of the MoU provides that BoU should recall funds allocated but not utilised by the PFI within 50 days from the time of initial request for refinancing by PFIs. Commitments are loan funds allocated to PFIs that have not been disbursed by BoU pending a PFI's proof of disbursement to the beneficiary.

From the available financial records, it was observed that funds under ACF III totalling UGX 3.63 bn had been committed for a period of over one year while a total of UGX 5.35bn under ACF IV had been committed in excess of fifty days contrary to what is laidout in the MoU. In addition, the scheme had no documented review process to evaluate its performance.

Accordingly, a total of UGX 8.98 billion remained committed beyond the stipulated time as shown in table 70 below.

Table 70: Commitments to PFIs as at 30 June 2013

PFI	ACF III (UGX'000)	ACF IV (UGX'000)	Total (UGX'000)
Bank of Baroda	846,500	3,685,279	4,531,779
UDBL	1,954,232	1,473,860	3,428,092
DFCU Bank	324,226	-	324,226
Stanbic Bank	65,021	42,902	107,923
Bank of Africa	405,000	-	405,000
Post Bank	-	125,000	125,000
Housing Finance Bank	-	21,200	21,200
Barclays Bank	37,784		37,784
Total	**3,632,763**	**5,348,241**	**8,981,004**

Source: ACF Audited Financial Statements for FY 2012/13

This was attributed to delays by PFIs to request for refinancing within the stipulated time frame as well as failure by BoU to recall the committed funds as required by the MoU.

Committing funds beyond the stipulated time frame denies eligible beneficiaries opportunities to access the scheme and this impacts on funds absorption.

Management response

As at 30th June 2013, the UGX 5.3bn are commitments under the ACF IV which is still ongoing. Reports from the PFIs indicate that the delays are caused by the beneficiaries who import machinery and equipment from overseas that are usually shipped and take a long time to arrive in the country. Some of the beneficiaries start the process of importing the machinery after getting approval from BoU. Cancellation of the offer at such a stage would adversely affect the borrower.

This does not affect the other beneficiaries given that there have always been enough funds under the Scheme for lending to the eligible borrowers.

Audit response

Audit maintains the finding on the basis that there was no documentation availed regarding delays of shipment from beneficiaries submitted to BoU through their respective PFIs.

Conclusion

The MoU set unrealistic timelines for BoU to recall all funds committed beyond the stipulated timeframe which was violated in a number of instances hence denying other beneficiaries access to the fund.

Recommendation

MFPED and BoU should consider revising the MoU to reflect more realistic timelines.

Variances in total loan amounts disbursed as reported in the records of BoU and PFIs

Clause 2.2 (iii) of the MoU provides that after disbursing the full loan amount to the beneficiary, a PFI should apply to BoU for the GoU contribution, an equivalent of 50% of the capital value of the loan disbursed to the borrower.

Through analysis of records, it was established that there were variances amounting to UGX 10.288 billion between the loan amounts recorded by PFIs and BoU. In some instances the amounts reported by BoU were more than those reported by the PFIs while in other instances the amounts were less.

The variances in loan amounts were attributed to inadequate monitoring of ACF funds by BoU once PFIs have disbursed loans to beneficiaries. It was also noted that the existing loan management system does not highlight/ alert where similar transactions have been captured/reflected differently by PFIs and BoU. Manual records such as ledgers, cash books among others were also not kept by BoU and this created difficulties in determining actual disbursements to PFIs.

Consequently, tracking and monitoring of disbursed loans was carried out manually with the assistance of excel spread sheets which are prone to errors in data entry and subsequent data modification putting at risk the integrity of the financial records of the scheme.

Management response

Disbursements from BoU are made on request from the PFIs supported by proof of disbursement to beneficiaries. In addition PFIs also submit quarterly reports indicating amounts disbursed to the sub borrower, repayments made, as well as outstanding balances. These reports are reconciled against the records at BoU. The records we have do not show any such variances. We shall however follow up with the respective PFIs as advised.

Some of such anomalies in variances would be identified through monitoring exercises; however BOU is not monitoring the ACF because it is outside the mandate of BoU.

Audit Response

The reported variances in the quarterly reports remained unreconciled at the time of issuing this audit report (March 2014). In addition, as noted in the management response, BOU is currently not conducting any monitoring. To verify the records presented by the PFIs, BOU instead relies on the submissions made by the PFIs.

Conclusion

There are unexplained variances in loan amounts recorded by PFIs and BoU attributed to weaknesses in monitoring of the scheme.

Recommendations

- BoU should put in place a robust loan management system to enable proper monitoring and tracking of loans disbursed to beneficiaries.
- MoFPED should investigate the variances identified with the loan amounts and take appropriate action.

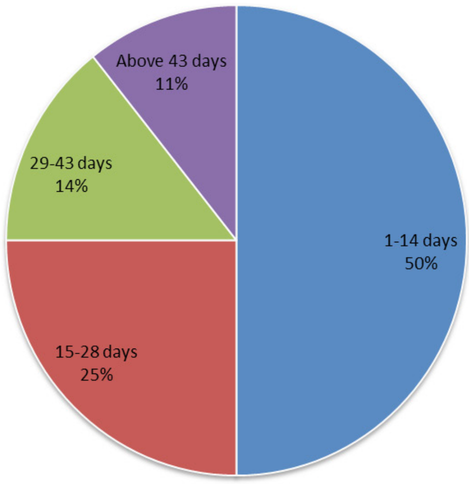
9.2.3 REVIEW AND APPROVAL OF LOAN APPLICATIONS AT BOU

Review and Approval Time

Clause 2.2(vi) of the MoU requires BoU to review and approve loan applications submitted from PFIs within 14 working days.

Analysis of twenty eight (28) loan applications submitted by PFIs to BoU was undertaken to determine the approval time and the results showed that 50% of the loans were reviewed within the stipulated time while the rest were reviewed outside the stipulated time frame as shown in figure 14 below.

Figure 14: Pie chart showing the review and approval time for Loans at BoU



Source: OAG Analysis of loan applications submitted by PFIs to BoU

On average, review and approval time took thirty (38) days which exceeded the stipulated time frame by 24 days.

Management attributed the delays to queries raised during review of loan applications that needed to be addressed and/or clarified by the PFI before final approval by BoU.

The delays in review and approval of loan applications affect timely access to funds by beneficiaries and negatively impacts on the absorption of funds.

Management response

The loan processing time at BoU is usually up to a maximum of seven days when the application is in line with the guidelines stipulated in the MoU and the ACF operational guidelines. In cases where the information is incomplete, BoU will seek for more information /clarification from the PFIs and this results into possible delays.

Conclusion

There are delays during the review and approval process of the loan applications, which impact on the timely access to the funds of the scheme.

Recommendations

- Management should ensure that loan applications are reviewed and approved within the stipulated timeframe in order to allow timely access to funds by beneficiaries.
- BoU should continuously sensitise the PFIs on the information that should be submitted with the loan applications so that delays due to submission of incomplete information are eliminated.

9.2.4 IMPLEMENTATION OF ACF PROJECTS

In an effort to ensure that farmers access affordable credit from PFIs for projects involved in agriculture and agro processing /value addition, the MoU requires PFIs to provide credit to beneficiaries at the subsidised rates[138] stipulated under the MoU.

Out of the 33 beneficiary projects inspected, 29 (87%) beneficiaries accessed affordable credit at interest rates stipulated under the MoU and the projects were also involved in agriculture and agricultural processing/

138 ACF Rates per annum: - ACF I: 10 %, ACF II: 12%, ACF III: 10%, ACF IV: 12%

value addition. From a list of beneficiary projects inspected it was established that three (3) beneficiaries were charged interest rates which were far above the rates provided under the MoU as shown in table 71 below.

Table 71: Interest Rates charged to beneficiaries

Beneficiary	PFI	Loan amount disbursed by PFI (UGX)	Rate as per MoU	Actual Rate charged
Pamrone Investments Ltd	Bank of Africa	350,000,000	10%	23%
Perfect Roses Farm Ltd	Bank of Africa	300,000,000	10%	21%
Mr. Saturday Kataama	DFCU	220,000,000	10%	18%

Source: OAG Analysis of ACF financial records

It was also observed that BoU had not taken reasonable action to recover from the respective PFIs the extra interest amount charged to the beneficiaries.

Management explained that BoU would not be in position to recover the extra interest charged by the PFI since BoU was not privy to the agreement signed between the PFIs and loan beneficiaries.

The extra interest rates charged to beneficiaries was attributed to failure by BoU to closely monitor the PFIs, weaknesses in the review and approval process within BoU, coupled with the fact that BoU does not undertake monitoring and follow up on beneficiary projects once loans have been disbursed by PFIs.

By charging interest rates above the rate provided for under the MoU, beneficiaries are denied access to affordable agricultural credit to support agricultural expansion and modernisation.

Management response

Some of such anomalies would be discovered through monitoring exercises. However, the monitoring of the ACF is not done and is outside BoU's mandate. Going forward, we shall follow up this issue with the PFIs.

Conclusion

BoU does not monitor beneficiary projects after loans are disbursed to PFIs and as a result some PFIs are charged interest rates which were above the rates stipulated under the MoU.

Recommendations

- BoU should ensure that PFIs charge the interest rates stipulated under the MoU.
- GoU through MoFPED should establish a monitoring unit whose responsibility should be to monitor the entire operations of the scheme and report its findings to MoFPED. By doing this GoU will receive regular feedback on major complaints in order to take the necessary corrective action

9.2.5 REPAYMENTS BY PFIs

Deposits to the Revolving Pool (Capital Account)

According to the MoU, repayments from PFIs should be collected by BoU and deposited into the scheme's revolving fund (capital account).

As at 30th June 2013, reported cumulative disbursements to PFIs stood at UGX 57.975 bn while cumulative repayments from PFIs totalled UGX 15.193 bn as shown in table 72 below:

Table 72: Showing Repayments from PFIs

FYs	Total Disbursements to PFIs (UGX'bn)	Total Repayments by PFIs (UGX'bn)	Balance due from PFIs (UGX'bn)
As at June 2011 (FYs (2009/10 and 2010/11)	25,851	3.473	22.378
As at June 2012 (FY 2011/12)	16,030	4.500	33.905
As at June 2013 (FY 2012/13)	16,094	7.217	42.782
Total	**57.975**	**15.193**	

Source: ACF Financial reports and Statements for FYs 2009/10 – 2012/13

It was observed that repayments from the PFIs were not deposited on the revolving pool of the scheme but instead deposited on the UNIS control account, contrary to the terms of the MoU.

Management of BoU explained that the capital account which is the operational account for the scheme was not used to receive repayments but rather to reflect the capital position of the fund.

Failure to deposit the repayments to revolving pool capital account of the scheme creates difficulties in tracking repayments from PFIs.

Management response

Commercial banks transact with BoU through the Real Time Gross Settlement System (RTGS) through a UNIS account. Subsequently, the entries are transferred to and credited to the respective PFI accounts. This is a standard operational procedure between commercial banks and central banks.

Audit response

Audit maintains that BoU should maintain the revolving pool capital account and deposit all recoveries as stipulated in the MoU. This simplifies the process of tracking repayments to the respective PFIs. With the current system in place, BoU cannot timely and easily ascertain repayments from respective PFIs and outstanding balances without additionally conducting individual reconciliations of subsidiary ledgers.

Conclusion

The current arrangement contravenes the MoU and creates difficulties in monitoring and tracking repayments from PFIs.

Recommendation

Management should ensure that repayments from PFIs are reflected in the revolving pool/capital account of the scheme as required by the MoU and where BoU is of the view that the current operational procedures are not feasible, then during the review process of the ACF, these issues should be discussed and MoU adjusted accordingly.

9.2.6 MONITORING

Clause 2.2(x) of the MoU requires BoU to monitor and evaluate the beneficiary projects after disbursement by the PFIs. In addition, clause 2.4(i) of the MoU requires PFIs to submit quarterly reports to BoU on the status of ACF loans. Subsequently, BoU is expected to submit quarterly progress reports to MoFPED.

Interviews with BoU officials revealed that they had not monitored beneficiary projects since inception of the scheme.

It was also noted that the Budget Monitoring and Accountability Unit (BMAU)[139] under MoFPED had inspected several beneficiary projects as part of the unit's monitoring function for selected government programmes for only two financial years 2010/2011 and 2011/2012.

Management explained that BoU would not monitor or evaluate beneficiary projects as this was not consistent with BoU's mandate to regulate the financial system and that the position had been communicated to MoFPED but with no action taken.

Consequently, desk monitoring and supervision was undertaken through the quarterly reports submitted by the PFIs.This explains why the progress reports submitted by BoU to MoFPED lacked sufficient information pertaining to the actual physical performance of beneficiary projects as well as the performance of loans advanced to beneficiaries.

Inadequate monitoring and supervision increases the risk of loss of scheme funds arising from delinquent accounts. Analysis of records showed that loans amounting to UGX 7.78 bn were delinquent while loans totalling to UGX 499 million which had been written-off by PFIs were not reflected in the scheme's financial statements as at 30th June 2013.

Management response

The position of the Bank on monitoring is that BoU would not monitor or evaluate the use of funds as this is not consistent with its mandate which is to provide prudential regulation of the financial system. Consequently, monitoring and supervision are done through the quarterly reports submitted by the Participating Financial Institutions.

Audit response

Monitoring of ACF projects is not being done consistently and this needs to be addressed. Whereas, BoU states that it is not mandated to do so, the MoU which is the governing guideline has not been amended to clear this anomaly.

Conclusion

Inadequate monitoring of the ACF scheme has resulted in failure by BoU/MoFPED to report accurately and regularly on the actual performance of beneficiary projects.

Recommendation

MoFPED should consult with the relevant stakeholders and put in place proper arrangements for monitoring and supervision of the scheme's operations.

9.2.7 MARKETING OF THE ACF

According to clause 4.0 of the MoU, BoU was to jointly agree with PFIs as to how the scheme will be marketed in order to enhance access to affordable credit facilities by farmers and agro-processors.

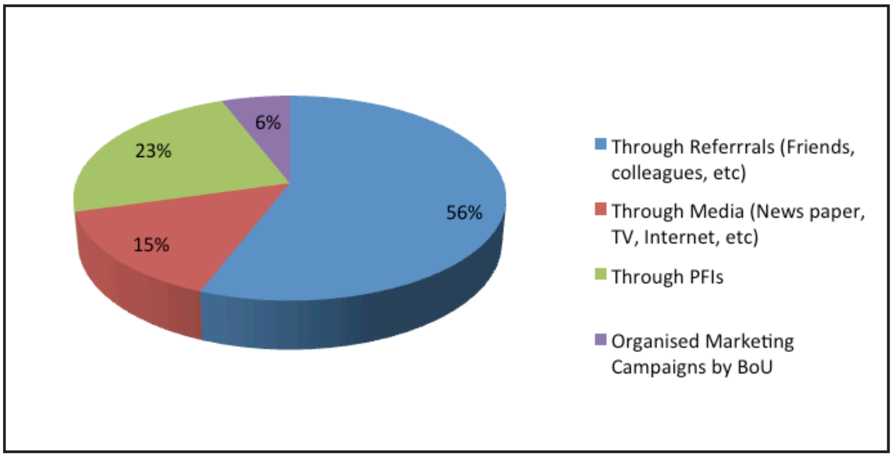
Interviews with BoU officials revealed that no agreement had been reached between BoU and PFIs on how the scheme would be marketed. By the time of audit (February 2014), there were no proper arrangements/ strategy to market the scheme and the activity was neither planned nor budgeted for by BoU or MoFPED.

Much as BoU had developed brochures for ACF, they had not been widely distributed to the PFIs and the public.

Figure 15 shows the available sources/channels of information about the scheme during interviews held with thirty three (33) selected beneficiaries.

139 The Annual Budget Monitoring report gives an overview of financial and physical performance for selected GoU programmes.

Figure 15: Pie Chart showing sources of ACF information



Source: OAG Analysis of interviews held with beneficiaries

The pie chart shows that 56% of beneficiaries received information about ACF through referrals (friends, colleagues etc.), 23 % through respective PFIs, 15% through media and 6% through organised marketing respectively.

The inadequate marketing of the scheme was attributed to the weakness in the MoU which did not clearly specify how marketing was to be handled by both BoU and PFIs.

BoU officials interviewed attributed the inadequate marketing to PFIs, unwillingness to provide information and promote ACF loans over their own products that were more profitable and yielded higher interest compared to loans given under the scheme.

Inadequate marketing and dissemination of information about the scheme has led to public ignorance and limited access to scheme funds by potential borrowers leading to low absorption of the scheme funds.

Management response

BoU officials attributed the inadequate marketing to lack of funds since MFPED does not provide for operational funds for ACF activities.

Conclusion

With inadequate marketing and dissemination of information about the scheme, there is a risk that the GoU's intended objective of attracting more lending to the agricultural sector as well as its commercialisation aimed at transforming Uganda into a food basket of the region may not be realised in the projected time frame.

Recommendation

MOFPED/BoU should ensure that proper mechanisms of increasing public awareness about the scheme are initiated and implemented.

OVERALL AUDIT CONCLUSION

The Agricultural Credit Facility is currently in its 4th year of operation and has continued to register improvement in its performance with the increased involvement of the PFIs with 16 PFIs currently participating, up from 11 PFIs in 2011. Reported disbursements to beneficiaries also increased to UGX 118.5 bn in 2013, up from UGX 50.46 bn in 2011 contributed by both GoU and the PFIs. Overall there have been shortcomings in complying with the MoU specifically with regard to funds disbursement, utilisation, credit appraisal, monitoring and marketing. These shortcomings need to be addressed if the scheme is to achieve its objective of supporting agricultural expansion and modernisation/mechanisation.

10

10.0 IMPLEMENTATION OF VEGETABLE OIL DEVELOPMENT PROJECT

10.1 INTRODUCTION

10.1.1 BACKGROUND

The Vegetable Oil Development Project (VODP) is Government of Uganda's strategic effort to: increase domestic vegetable oil production, address rural poverty through involvement of small holder farmers in oil crops production and cottage processing, improve the health of the population through increased vegetable oil intake in the villages and address food security through provision of alternative crops for income generation.

The project has three components namely: a) oil palm, b) Vegetable Oil Development Fund (VODF) consisting of traditional oil seeds and essential oil crops sub components, and c) institutional support. The palm oil component is implemented under a Public Private Partnership (PPP) between Government of Uganda and Bidco Uganda limited. The traditional oil seeds and essential oil crops component was implemented through a variety of implementing partners, using traditional research/extension methods while the institutional support component was for day to day activities of the project coordination office and other implementing partners.

The project is jointly funded by the Government of Uganda (GoU) and International Fund for Agricultural Development (IFAD) assistance on the one hand and the private sector on the other. The project is under the Ministry of Agriculture, Animal Industry and Fisheries and is supervised through the project coordination office.

It is a two phased project; the first phase, which was for a period of eight years, was initially intended to start in 1998 and be completed in 2006. However, the loan agreement was amended on 6th June 2005 extending the completion and closing dates for oil palm and institutional support components for a period of three years up to September 2009. The first phase, however, ended in June 2012. The second phase (VODP2) which took off in 2012 is to end in 2018. This audit focused on all the three components in the first phase of the project.

10.1.2 MOTIVATION

Uganda's consumption of edible fats and oils is dominated by vegetable oil and its income elasticity of demand is high. However the domestic production of vegetable oils cannot meet the national demand, hence making Uganda heavily reliant on the importation of vegetable oil (up to 80% of the market supply)[140]. Although Uganda had a consumption demand of over 216,000 metric tons of edible oil in 2012, national production stood at 45,000 metric tons, which resulted into the importation of up to 171,000 metric tons and which in turn led to loss of foreign exchange.[141]

140 VODP Annual Report For Financial Year 2008-09

141 Uganda Oil Seeds Processors Association Monitoring and Evaluation Report 2012

Accordingly, the Government of Uganda (GoU) signed an agreement with IFAD in 1998 to finance the Vegetable Oil Development Project to increase vegetable oil production. The first phase of the project was concluded in June 2012 and cost the Government of Uganda $35.6million (approx. UGX 71.12billion) while the private investment cost $120million (approx. UGX 308.4billion).

Despite the substantial capital investment into the Project, Uganda still spends about UGX162 billion (Approx. $63.035million) annually on importation of edible cooking oil, up from $42.1million in 1996 even though the country has suitable climatic and edaphic conditions for the production of a range of oil crops.

There were reports of delayed implementation of project activities which culminated into extension of the completion date of the first phase of the project. The loan agreement between IFAD and GOU was signed on 26th May 1998 and the loan became effective in July 1998. The first phase of the project had a completion date of 30th September 2006 which was later extended by a period of five years to 30th June 2012.

There were also reports of poor seed quality, volatile and uncoordinated markets, limited funding for research and limited access to inputs.[142]

It was against this background that a VFM audit was undertaken on the implementation of VODP in the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) to assess the performance on the first phase of the project.

10.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

The VODP was implemented by the project coordination office under the Ministry of Agriculture, Animal Industry and Fisheries. There were three components under this project with different objectives, modes of implementation, geographic areas and supporting institutions. The oil palm component aimed to establish a new industry from scratch with heavy dependence on a single private sector partner Oil Palm Uganda Limited (OPUL). This component was implemented through a tripartite agreement between the GOU, OPUL and KOPGT with a major aim of production of oil palm on the nucleus estate by OPUL, out growers and small holders' scheme and establishment of an oil mill on Bugala Island and an oil complex refinery at Jinja by Bidco (U) Ltd.

The Vegetable Oil Development Fund (VODF) component consisted of the traditional oil seeds and essential oils sub component. The major aim of the Traditional Oilseeds Sub component was to expand smallholder production and processing of existing oilseed crops. It worked with a variety of implementing partners, using traditional research/extension methods. Research activities for traditional oil seeds were carried out by Serere Agricultural and Animal Production Research Institute (SAARI) for sunflower, simsim and groundnuts, and Namulonge Agricultural and Animal Production Research Institute (NAARI) for soybean. The districts carried out extension services, UOSPA undertook seed multiplication and distribution and Uganda National Bureau of Standards (UNBS) quality analysis and development of standards.

The Essential Oils Sub component aimed to explore the potential for production of little known essential oils. This sub component was implemented by Kawanda Agricultural Research Institute (KARI).

The Institutional Support component provided project support to the project coordination office and other agencies like Coffee Research Institute (CORI), Kalangala Oil Palm Growers Trust (KOPGT), Vegetable Oil Development Council (VODC), National Environment Management Authority (NEMA) and UNBS through MOUs to carry out project activities.

The components of the project were implemented in a number of districts, namely: Palm oil component in Kalangala. The Traditional oil seeds sub component was situated in Apac, Lira, Soroti, Katakwi, Kumi, Pallisa, Mbale, Sironko, Kapchorwa, Kaberamaido, Masindi, Gulu, Kitgum, Pader

142 Uganda Oil Seeds Processors Association Monitoring and Evaluation Report 2012

and the crops of emphasis were Sun flower, soybean, groundnut and sesame. The Essential oils sub component was based in the districts of Tororo, Mukono, Luwero, and Lira and the crops of emphasis were citronella, geranium, Shea nut, lemon grass, aloe vera and Prunus Africana. For Institutional support, the Project supported the Project coordination office in MAAIF to coordinate project activities and overall implementation of the project. The other institutions supported by the project are located in Kampala namely: UNBS, COREC, KARI, VODC, and UOSPA.

Legal Framework/Mandate

VODP derives its mandate from MAAIF which has the overall responsibility and mandate for the agricultural strategy, policy formulation, and provision of technical advice through extension service, coordination of research and the promotion and direction of development of the agriculture sector. The project also operates within the framework of the loan agreement signed between GoU and IFAD on 26th May 1998.

Project Objectives and Activities of VODP

Specific Project objectives

The specific project objectives were:-

(a) To improve delivery mechanisms and availability of credit and improved seeds;

(b) To improve efficiency and impact of supporting services through support for research and extension;

(c) To develop the potential for sunflower and other oil seeds and provide interested small holder farmers, particularly women with appropriate technologies to optimize the extraction of oil from these crops;

(d) To stimulate and support the development of the raw material base and know-how for the subsequent commercial extraction of essential oils.

(e) To reduce Poverty and increase farmer incomes by involving small holder farmers.

(f) To facilitate an enabling environment to attract private sector investment in oil crop development with a view to reducing imports of vegetable oil and effecting substantial savings in foreign exchange and

(g) To promote private sector agro-industrial investment through the introduction of industrial oil processing mills with high environmental standards.

Activities

Each component had specific activities as indicated below:

Palm oil development

(a) Selection of participating small holders, out growers and acquisition of land for palm oil development.

(b) Construction of nucleus estate and out grower roads

(c) Provision of oil palm planting material and maintenance of planted oil palm trees.

(d) Provision of credit to small holder farmers.

(e) Conduct oil palm research.

(f) Installation of a processing mill.

(g) Harvesting of fresh fruit bunches and ensuring that farmers are paid at the agreed prices.

Vegetable Oil Development Fund (VODF)

A. Traditional Oil seeds sub component

i. Carrying out adaptive research into high yielding varieties.

ii. Multiplication and distribution of improved varieties of seeds to farmers.

iii. Provision of extension services to the oil crops farmers.

iv. Training farmers to process oil crops to add value by using appropriate technology.

v. Training artisans and farmers on how to operate and maintain ram press technology and other technologies.

vi. Developing market linkages for oil crops.

B. Essential oils sub component

i. Screening of potential essential oil crops based on yield, oil content, suitability to the environment, market availability and resistance to diseases and pests.

ii. Carrying out multi-location trials in different local conditions.

iii. Carrying out farmer training and extension service.

iv. Provision of planting materials.

v. Quality analysis of essential oils

vi. Export trials

vii. Commercial pilot production

viii. Market information services and linkage with/ private sector

Institutional support component

i. Coordination of pre-project activities and the overall implementation of the project.

ii. Establishment of a pricing mechanism for fresh fruit bunches.

iii. Support the establishment and operations of a smallholder Oil palm Growers Trust on Bugala Island.

iv. Support CORREC/NARO to carry out research to identify other areas of the country with oil palm potential for possible further expansion.

v. To support UNBS to update the analytical laboratory and train manpower to handle quality analysis of essential oils and crude oil.

Organizational Structure of VODP

VODP is headed by a Project Coordinator who ensures the implementation and timely preparation and submission of all relevant reports. Under the coordinator are four (4) technical staff, namely: Finance officer, Monitoring & Evaluation Officer, Traditional oil seeds officer and Oil palm officer to oversee the project activities. The project activities are implemented through the established district structures, that is, the District Production Officer (DPO) and the District Engineer (DE).

Project Funding

The project was funded by GoU, IFAD, BIDCO and Farmers. The total funding was USD 156 million as detailed in table 73 below.

Table 73: Financing structure

S/N	Funder	Amount in USD (Millions)
1	IFAD	19.90
2	GOU	12.50
3	Private sector (OPUL/ BIDCO)	120.00
4	Farmers	3.16
	Total	**156**

Source: VODP annual reports

10.1.4 AUDIT OBJECTIVES

The overall audit objective was to assess the implementation of VODP by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)

The specific objectives were to ascertain whether:-

i. Adequate research was carried out into high yielding crop varieties

ii. Extension services were provided to farmers

iii. The project adequately provided the farmers with production inputs

iv. Market linkages were developed for all oil crops

v. Project funds were utilized for the intended purpose.

10.1.5 AUDIT SCOPE

The audit covered the implementation of the three components of Vegetable Oil Development project (VODP) by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) in the project implementing districts for the first phase of the project that is from inception in 1998 to closure in 2012.

10.1.6 AUDIT METHODOLOGY

Sampling

All the three components of the project were selected for assessment. The study was carried out at the project coordination office at Kampala and involved inspection of a sample of 11 districts in which the project activities were implemented. The districts of Mbale, Soroti, Masindi, Pallisa, Apac, and Lira which were implementing the traditional oil seed component were randomly selected using the simple random sampling method.

The other 5 districts were purposely selected as follows: Kalangala district (only district implementing the oil palm component); Tororo district (only district in which essential oil activities were implemented); and Mukono, Wakiso and Serere (districts where NARO research institutes are located).

Data Collection

The following data collection methods were used to gather audit evidence:

Document Review

Several documents were reviewed with the objective of obtaining information relating to project objectives, activities and targets.

Interviews

A total of 40 interviews were conducted with MAAIF officials, project coordination office staff, farmers, staff at the KOPGT secretariat.

Field Inspections

Field Inspections were carried out at the project implementation districts to assess whether the project activities were implemented as planned.

Data Analysis

Collected field data was analyzed to establish performance trends in the implementation of the project over the period under review as well as determine variations between planned and actual project outputs.

10.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Audit noted major project achievements under the Oil palm component, which included: establishment of a nucleus estate[143] covering 6,300 hectares against a targeted 6,500 ha together with smallholder and out-grower farms measuring 3,296 ha against a targeted 3,500 ha. The model (developing a nucleus estate and supporting out growers and smallholders) was innovative and supports an equitable relationship between smallholders and the private sector - with benefits to smallholder farmers. By June 2012, 1,286 smallholders/ out growers had been selected and were benefiting from the project. A palm oil mill of 20 metric tons per hour capacity was also established at Bwendero in Kalangala while an oil refinery was established in Jinja where vegetable oil and by-products like soap are manufactured[144]. By September 2012, the palm oil extraction mill was processing 500 MT of crude oil every fortnight.

The VODF component had a catalytic effect on sunflower production, with over 200,000 beneficiary families reached, an expansion in sunflower cultivation from 2,000 ha to 81,500 ha, and increased grain milling and processing. Five essential oil crops were tested and good economic potential established for citronella and lemon grass. Participating households in both traditional

143 Nucleus estate is oil palm plantation established by the private investor.

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oilseed and essential oil production realized major improvements in their incomes and living standards.[145]

In spite of these achievements the study has identified areas for improvement.

10.2.1 DELAYED IMPLEMENTATION OF THE PROJECT

The loan agreement between IFAD and GOU was signed on 26th May 1998 and it became effective in July 1998. The project stipulated a project implementation period of 8 years commencing in July 1998 to July 2006.

From a review of various project reports, audit established that the project experienced significant delays in implementation of its major activities. This mainly affected the oil palm component whose commencement date was delayed by 5 years. This meant that the other components such as Institutional support had to be extended by a period of 6 years in order to support the implementation of the project.

The delayed implementation of the project impacted on the timely achievement of the project outputs. For example production of vegetable oil which was meant to save government substantial amounts in oil importation delayed by five years. It was not until late 2009 that the first harvest was made.

Management Response

The project delayed for about 5 years due to delays in securing a private sector partner to co-implement the Oil Palm Component of the Project. While the other components of the project like Vegetable Oil Development Fund and Institutional Support started on time and progressed in implementation, the Oil Palm Component by design was to be co-implemented with a private sector partner and therefore could not progress without the partner on board. The original best evaluated bidder failed to implement the project. After 2 years negotiation with the bidder, government cancelled the offer and invited the second best bidder who eventually agreed to undertake the project, although still issues of increase in land size (nucleus estate), environmental concerns and tax incentives arose which led to further delays.

Land acquisition for the project was quite strenuous and slow, leading to a further delay in starting the component. An agreement marking the conclusion of negotiations was signed in April 2003. The Component implementation was then started and moved quite first after that. In VODP2, land acquisition was initiated early and the same private sector partner is to participate in the implementation of the project.

Conclusion/Auditor's comment

Audit notes the circumstances causing delays, although, being a new venture, a comprehensive feasibility study should have identified such risks.

Recommendation

For future projects of this nature, key project risks such as those relating to land acquisition, incentives and project awareness should be identified early and mitigation measures put in place prior to implementation. Management could also look into the possibility of splitting or phasing such projects for easier implementation.

10.2.2 FUNDING OF PROJECT ACTIVITIES

According to the VODP Appraisal Report and implementation manual, GoU was obliged to remit UGX 23.75 billion (equivalent to $12.5M) to cater for recurrent costs, purchase of land for the private investor and taxes during project implementation. It was noted through analysis of audited accounts, annual and appraisal reports that by June 2012, the financial year in which the project closed, GOU had remitted only UGX 13.03 billion of the expected disbursement of UGX 23.29 billion representing 56% performance level. (table 74 below refers)

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Table 74: Showing disbursements of Counterpart funding over the project period.

Project Years	Projected (UGX)	Actual (UGX)	Variance (UGX)	Proportion Disbursed
GOU				
1997/8	306,000,000	57,000,000	249,000,000	19%
1998/9	353,000,000	91,000,000	262,000,000	26%
1999/0	256,000,000	165,000,000	91,000,000	65%
2000/1	619,000,000	89,000,000	530,000,000	15%
2001/2	443,000,000	107,000,000	336,000,000	25%
2002/3	687,000,000	372,000,000	315,000,000	55%
2003/4	1,979,000,000	500,854,141	1,478,145,859	25%
2004/5	509,526,000	376,805,000	132,721,000	74%
2005/6	2,083,359,535	859,520,968	1,222,838,567	41%
2006/7	1,994,197,000	214,157,000	1,780,040,000	11%
2007/8	2,557,969,355	691,895,031	1,866,074,324	27%
2008/9	1,828,742,360	1,609,363,000	219,379,360	88%
2009/10	6,537,000,000	5,671,000,000	866,000,000	87%
2010/11	3,136,996,000	2,226,088,834	458,984,811	85%
2011/12	3,396,000	1,263,000	2,133,000	37%
Totals	23,294,186,250	13,031,946,974	9,809,316,921	
Average percentage disbursed.				56%

Source: OAG analysis of Audited Accounts, Appraisal Report and VODP Annual Reports

There were also instances where disbursements to districts for project activities were not remitted quarterly as required for example in Kalangala where funds were disbursed to KOPGT either in the middle or at the end of the quarter.

Failure by GoU to remit counterpart funds as expected created a funding gap which did not allow timely implementation of project activities. For example land acquisition for the palm oil plantations, procurement of machinery, putting in place infrastructure in Kalangala and limited extension services.

Management Responses

The Government was expected to contribute UGX 23.29 billion and according to the project documents. A total of UGX 13.03 billion was disbursed through the project as counterpart funds for taxes, government contribution to operational costs and land acquisition for the project. The rest of the contribution was in form of securing industrial land in Masese Jinja for the Refinery which was handled by Uganda Investment Authority, construction of the railway siding in Masese, Jinja and improvement of ferry services in Kalangala which were undertaken by Ministry of Works and Transport. These funds were not reflected in the disbursed amount because they were not disbursed through the project accounts. Rather, the services were provided by the relevant offices and the values can be ascertained from them.

Audit Response

The contribution of land, railway siding and ferry service was not part of the UGX 23.29 billion to be disbursed directly from MoFPED. Without documentation showing the values of these contributions, audit maintains that the government was consistently and annually under releasing expected funding. This coupled with the delayed releases further contributed to the delays in project implementation.

Recommendations

Constant dialogue and follow up with MoFPED to ensure adequate and timely release of funding commitments to facilitate timely implementation of project activities.

Further still, the values of contribution of land, railway sliding and ferry services should be ascertained by project management to ensure completeness in terms of funding so that in future it is easier to compare total costs and benefits and ascertain whether the project provides value for money.

10.2.3 KOPGT LOAN PORTFOLIO

Section 4.09 of the amended loan agreement of June 2005 between GoU and IFAD required GoU to cause KOPGT to open and maintain a separate account to deposit the monies deducted from the sale value of the ffb as repayment for inputs and services provided to small scale oil palm growers. The utilization of such monies was to be agreed upon between the IFAD and GoU before the completion of the Oil Palm Component of the project.

Through document review of the KOPGT loan portfolio and KOPGT loan account, audit established that by the time of reporting, KOPGT had disbursed to farmers a total of UGX 26.366 billion in form of recoverable loans of which UGX 2.3 billion had been recovered. By the time of audit, KOPGT management had opened up fixed deposit accounts with Stanbic bank Kalangala with interest rates lowering from 16% in 2012 to 11% maturity in October 2013. These funds were lying idle on the account and not being utilized.

According to the financial and institutional arrangements for small scale oil palm grower support it was both IFAD's and GoU's intention to reuse the reflows from the scheme in the continued promotion of vegetable oil production in Uganda.

There is a risk of this money being misused if no proper arrangements are put in place for its utilization. Besides, the reason for the lowering of interest rate from 16% to 11% was not explained.

Management Response

A decision was made in the new loan Agreement (VODP2) to have these repayments recycled to finance loans for new smallholder oil palm growers in Kalangala and Buvuma, albeit the Buvuma farmers have not yet started growing the oil palm. The funds were deposited on a fixed deposit account to protect the money from depreciating as modalities were being finalized.

Conclusion

Audit notes that the delay in agreeing of modalities of usage of the funds affects the eventual achievement of project objectives, since funds lying idle for such a long time would have been efficiently utilized by farmers to increase acreage and production volumes to meet the growing vegetable oil demand. Meanwhile the reduction in interest rates reduces the income that is available for recycling thereby affecting the fund's objectives.

Recommendation

Management should ensure prompt utilization of funding as promised in the new project. A follow up audit will be undertaken to ensure proper identification of farmers, and efficient allocation and utilization of funds for the intended objectives. Meanwhile the reduction in interest rates should be investigated.

10.2.4 PROVISION OF PRODUCTION INPUTS

Seed Multiplication and Distribution

The VODP PIM clause 4.1.2 required the project to contract a reputable NGO to carry out seed multiplication and distribution. The contractor was required to distribute the seeds to farmers at full cost and deposit the revenue from sale of seed on a revolving account opened by the PCO for the purpose of seed multiplication.

The project contracted UOSPA to carry out seed multiplication and distribution to farmers in the VODF project districts for the financial years 2000/2001-2001/2002 at a cost of UGX 327,323,000. From this amount, UOSPA was required to procure foundation seed from SAARI/NARO for sunflower and NACCRI/NARO for soybean, multiply it using contract farmers and distribute it to farmers. The rest was to be used for knowledge dissemination and consultancy fees.

From a review of the annual reports for UOSPA and VODP for 2000/01 and 2001/2002 respectively, it was established that a total of 187,544kg (at UGX 800/kg) of sunflower and 243,300kg (at UGX 900/kg) of soybean had been multiplied and distributed to various districts during the period of their contract. Given the amount of seed distributed, UGX 369,005,200 would have been realized and deposited on the seed revolving account. However, the project did not open a revolving account for this purpose. Instead, UOSPA management deposited some sales proceeds on their company account. There was lack of clarity as to how much was realized and ploughed back for multiplication and distribution. The possibility that funds were not put to proper use cannot be ruled out.

Lack of a seed revolving account resulted into the unsustainability of supply of the seed to the farmers. Consequently some farmers abandoned the growing of the traditional oil seeds. For example, in Masindi and Pallisa districts farmers were finding it difficult to access seed.

Management Response

The UGX 28,000,000 that was available from the UGX 327,323,000, for buying the multiplied seed, could only buy 60 tons (28,457 of sunflower seeds and 31,472kg of soybeans seeds) out of the total seed multiplied (187,544kg of sunflower and 243,300kg of soybeans). When certified, the price for the seed when selling to farmers was UGX 800/- per kg for sunflower and UGX 900/- per kg for soybeans which was equivalent to UGX 22,765,600 for sunflower and UGX 28,324,800 for soybeans, giving a total of UGX 51,090,400 as total funds realized from the sale of certified seed. This money was banked on a seed revolving fund managed by UOSPA and funds used for further multiplication for future seed requirements. The rest of seeds multiplied were distributed through informal farmer to farmer channels. The monetary value of seeds distributed among these channels was not real cash that could be banked. The Project did not envisage running a revolving fund at Project level, rather facilitating the oil seeds sector to have improved seed for planting. Besides, it would be practically difficult to run a GOU revolving account, since accounting regulations would deter use of Non Tax revenues once banked.

This channel of distribution continued until the millers required another variety, a hybrid, which could not be procured by UOSPA. This led to failure by UOSPA to continue selling sunfola variety through the revolving fund hence incurring losses for the stock of seed that had been purchased.

Audit Response

According to the manual, the bank account for seed revenue was to be opened by the project coordination office and not UOSPA. Authority should have been sought for the use of NTR as a revolving fund. Moreover, the farmer to farmer scheme of distribution was not envisaged in the contract.

Conclusion

VODP did not ensure sustainability of seed supply to the farmers as it failed to put in place a Seed revolving account which could have continuously provided the farmers with seed. Besides, there was limited monitoring of both the revolving account opened by UOSPA and the informal farmer to farmer mechanism to ensure objectives are being met.

Recommendation

There is need to ensure proper documentation is availed by UOSPA on the actual amounts collected before the contract ended. In future, it is also recommended that the informal distribution channels are closely monitored to keep track of the amounts/volumes of seed distributed so as to assess whether project goals are being met.

Distribution channels for Groundnuts and Sesame.

Clause 4.1.2 of the VODP PIM required the project to contract reputable NGOs to carry out seed multiplication. The NGOs were to procure planting foundation seed from SAARI and multiply it using contract farmers/agents. They were to be advanced funds to buy the multiplied seed, clean, dry, dress and package it in bags of different sizes affordable by small holder farmers. The crops of emphasis were sunflower, soy bean, sesame and groundnuts.

Documentary review revealed that while the project spent UGX 596,646,810 on research on the four improved varieties of oil seed crops in SAARI, there were no official distribution channels for groundnuts and Sesame, resulting from the research. VODP management explained that their mandate ended with research on improved varieties and seed companies were required to take over from there. The project did not have any information on how much of groundnut and sesame had been distributed to the farmers. The project completion report, May 2013, makes mention of UOSPA as the only company contracted to carry out multiplication and distribution. UOSPA, however, distributed mainly Sun flower and some Soybean.

The VODP management attributed the failure to distribute improved sesame and groundnut seeds to farmers' preference for sunflower and soybean, arising from the fact that groundnuts and sesame take a longer time in processing and the quantity used to produce a litre of vegetable oil is high. Audit, however, attributed it to failure by the project to effectively engage the seed companies to procure improved seed varieties from research institutions, multiply and distribute them to the farmers.

The absence of proper distribution channels for sesame and groundnut seeds made it difficult for the farmers to access the improved seeds. For example, the project completion report reported that of the 320 respondents interviewed, 33% were accessing improved oil seeds after the closure of the project while 67% did not. It was also established that those who did not access improved seeds had resorted to planting local varieties that give low yields.

Management Response

The project was mainly intended to increase domestic production of vegetable oil. The crops that were processed for vegetable oil were sunflower and to a limited extent soybeans because of specialised processing facility 9 Solvent extraction) that was not in the country at that time. There was therefore more effort on sunflower and soybeans because of their direct contribution to vegetable oil production. Groundnuts and sesame are oil crops but they do not get into the milling industry because they are consumed as grain and would be too expensive if they were crushed into vegetable oil. The amount spent on research of the two seeds was only UGX 134,349,700. This resulted into high yielding varieties that are currently multiplied by private seed companies and sold to farmers

The need to track these other oil crops from research has been noted and the project in the second phase will ensure that a record is maintained of the different varieties as released and the amounts availed to the different seed companies and other organisations.

Audit Response

The need to have distribution channels for groundnuts and Sesame resulting from the research was an omission in the project design.

Conclusion

The project did not make arrangements for the distribution of improved sesame and groundnut seeds. Although private companies have taken over the role of distribution, it is in the interest of the project (VODP) to get information on the performance of these researched improved varieties.

Recommendations

In addition to the private sector distribution channels, the project should partner with seed companies to enhance access to improved seeds in those areas where demand for the seeds are high but are not effectively served by the private companies. Furthermore, the need to keep track of the performance of such improved varieties cannot be over emphasized.

Fertilizers

According to the PIM clause 3.10.4 – 3.11.3 and Article 2(b) of the tripartite agreement between GoU, OPUL and KOPGT, the project was supposed to provide fertilizers to the oil palm growers.

Through a review of KOPGT records, it was established that some farmers received less fertilizer than what was needed for their plantations, while in other instances, they did not receive certain types of required fertilizer at all; as shown in the table 75 below:

Table 75 : Showing fertilizer received as a percentage of required.

YEAR	GRP	DOLOMAX	NPK BLUE	NPK SUPER	KIESERITE	MOP	BORATE	ROCK POSPHATE
2009	0%	14%	0%	0%	0%	100%	16%	0%
2010	0%	0%	23%	0%	0%	0%	0%	0%
2011	0%	100%	100%	-	100%	100%	0%	90%
2012	0%	100%	100%	48%	100%	100%	0%	90%

Source: OAG analysis of KOPGT records

As shown in the table above, farmers received less than 25% of their fertilizer requirements in the first two years of project implementation (2009/2010). Most types of fertilizers were not received during this period.

With the exception of the GRP and Borate fertilizer, supplies of other types of fertilizers improved in 2011 and 2012.

Through interviews with the fifty (50) farmers and KOPGT field officers, it was also established that the farmers were not receiving fertilizers as and when required. On average, farmers spent about four to six months without fertilizers.

Failure to receive the required fertilizers was attributed to poor planning by KOPGT management which did not take into account the long procurement process and request for the required fertilizers at the planning stage.

Failure to provide the required fertilizers resulted into nutritional deficiencies in the palm trees that would eventually affect the yield of the farmers as shown in the picture 8 below:

Picture 8: Showing yellow palm trees deprived of caselit fertilizer

Source: photograph taken by OAG staff, March 2013

Management Response

In 2008 to 2011, there was an international challenge in fertilizer availability. Access to fertilizers became intermittent, which affected access to fertilizers by both the nucleus estate and the smallholder farmers. The situation improved thereafter and currently, the farmers receive fertilizers as and when required.

To improve access to fertilizers by farmers, KOPGT is now undertaking forward planning and placing orders with OPUL with a lead time of one year. This is bearing fruit as access to fertilizers has improved significantly in the last two years. In addition, the project is constructing a fertilizer store at Kalangala so that KOPGT can stock sufficient quantities of fertilizers.

Audit Response/Conclusion

Although the project provided fertilizers to the farmers, it was not adequate and timely hence leading to nutritional deficiencies of some palm trees. Audit however commends the forward planning and the one year lead time currently undertaken. A follow up audit will be undertaken to assess the improvements.

Recommendation

Comprehensive planning at inception is necessary to avoid such adhoc procurements.

10.2.5 PROVISION OF EXTENSION SERVICES

According to PIM clause 4.2.6 extension services were to be provided through the existing system in the districts with one officer trained from each district and this officer would in turn provide extension services to the farmers. The project was also supposed to support the districts to provide extension services.

Essential oil crops

Through interviews with the District Agricultural Officer and document reviews, it was established that for the essential oil component, in Tororo district, the project did not involve the established district system in the provision of extension services. The research team which was based at NaCCRI in Kampala was instead in direct contact with the farmer groups. The project did not provide any facilitation to the district and there was no designated district extension worker attached to the essential oil crop farmers for purposes of knowledge transfer.

Non involvement of Tororo district administration resulted into farmers not receiving sufficient training in agronomical practices of essential oil crops. In addition, there was lack of ownership of the project by the district, since decision making was done at the PCO.

Management Response

Essential oils production was new to the country with hardly any knowledge on how to grow the crops and process. The project therefore concentrated on research activities on station and on farm to develop the knowledge to eventually pass on to farmers for production of essential oils. For some of the crops it was a learning experience for even the researchers. The project did not fund the District because it was not yet at a level of mass production of the crop. Research into growing of the crops, agronomic practices, processing and management in the Ugandan environment had to be known and documented before passing on the information to extension workers to extend to different farmers. As a way forward, the researchers are developing farmer guides and other training materials on growing and processing essential oils which they will avail to extension workers for training of farmers. This is now possible because research has been concluded and knowledge created.

Audit Response/Conclusion

Audit notes the steps undertaken to provide training to extension services. However, although evidence to authenticate this was requested, it had not been availed by the time of reporting.

Recommendation

In future, even at research level, it is important to involve district extension staff, for knowledge sharing and troubleshooting in cases of challenges, since they have experience of local conditions.

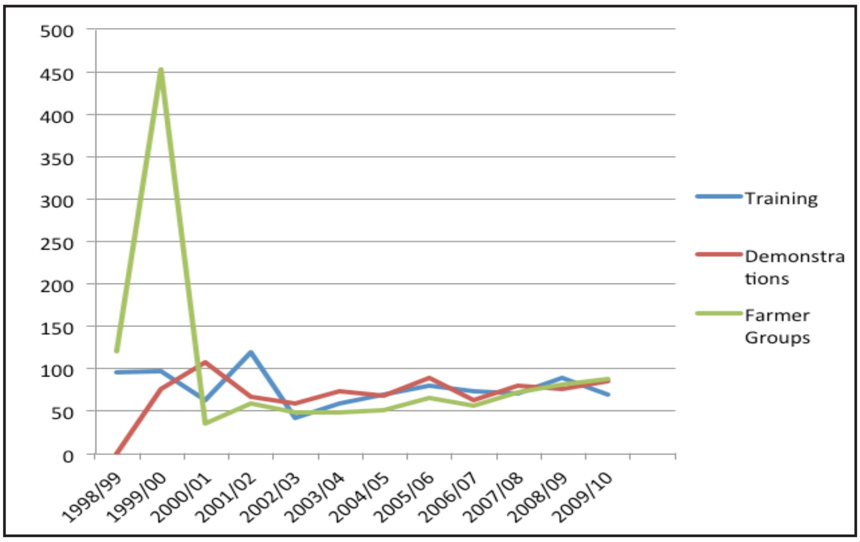
Traditional oil seeds

General extension delivery under the traditional oil seeds sub component was to be carried out through the existing system in the districts and MAAIF. The activities included information dissemination by extension workers on new varieties of crops, mobilization of farmers to form groups, training of farmers' groups, making farm visits, conducting promotional field days and demonstrations at farmers' level.

Through interviews and document review of VODP progress reports for July 2010, audit established that the project did not achieve its targets in the provision of extension services under the traditional oil seeds component. For the period 1998/99- 2009/10 the project performance was: training-74.5%, demonstrations-74.6% and mobilization of farmer groups- 64.5%.

Further, from the figure 16 below, all extension services peaked in the early years, fluctuated in the middle and declined considerably in the later years.

Figure 16: Showing the performance trend of the project extension services.



The concentration of extension services in the earlier years resulted in project districts benefiting disproportionately.

Management Response

In the early parts of the project, there were more intensified extension services to farmers. Reduction in the intensity of the extension services was due to a number of reasons as detailed below:

- Later in the project life, the project districts were subdivided into new districts which increased the cost of service delivery and yet project funds did not increase.
- Increase in the number of districts also affected the number of extension staff available for farmer training given that they had to take over the new districts and therefore some sub-counties did not have staff.
- There was a change in Government policy with the introduction of NAADS which required farmers to select a few priority enterprises for extension advice. Some staff joined NAADS and this reduced the available staff to provide extension advice to farmers.
- In the later parts of the project, funds reduced tremendously and concentration moved to the oil palm component that came on board much later than traditional oilseeds.
- The LRA war in the North affected some districts like the Acholi region, the Lango region and at one time part of the Teso region. This also affected delivery of extension services to farmers.

Audit Response

The project failed to achieve its targets in the provision of extension services under the traditional oil seeds component. More emphasis was being put on Oil Palm.

Recommendation

In future, the project should proportionately provide the extension services to the farmers over the years if they are to maximally benefit from these services.

10.2.6 MARKET LINKAGES

Ram press for traditional oil seeds

According to the PIM clause 4.1.3, the project was supposed to procure and distribute 350 ram presses to farmers.

Through document review, it was established that the project worked closely with Appropriate Limited (AT-Uganda) to procure and distribute 343 ram presses to farmer groups in oil seeds sub project areas[146]. These ram presses were distributed through a credit revolving fund set up by the project[147]at a cost UGX425,000 per ram press. Farmers were supposed to pay cash for the ram presses. According to the impact assessment study of March 2007, the proceeds of which were to be used to purchase more ram presses for distribution to other farmers through a revolving fund. Given the number of ram presses distributed, UGX 145,775,000 would have been realized and deposited on the revolving account. However, there are no records to show how much was realized.

Field visits to the districts revealed that some farmers who received ram presses did not pay as anticipated. See table 76 below:

146 project completion report page, 11

147 VODF Impact Assessment Study, March 2007 page 55

Table 76: Showing Ram presses distributed by districts but not paid for.

District	No. of ram presses distributed	Amount due (UGX)	Amount paid (UGX)	Variance (UGX)
Masindi	5	2,400,000	800,000	1,600,000
Lira	60	28,800,000	Nil	28,800,000
Apac	14	6,720,000	Nil	6,720,000
Soroti	12	5,760,000	100,000	5,660,000
Total		**43,680,000**	**900,000**	**42,780,000**

Source: Analysis of monitoring reports

Interviews with the DAOs in Masindi and Soroti districts revealed that UGX900,000 collected from the sale of ram presses was deposited on revolving fund account, however, details of the said account were not availed for audit.

The farmers failed to pay for the ram presses because of the absence of formal agreements between the districts and the farmers detailing the modalities of payment. There was also reluctance by the district officials to follow up on the debts.

Field visits also revealed that not all the ram presses distributed by the project were being used by the farmers. While some were lying idle at various district stores, others were at the farmers premises not utilized at all. For example, in Masindi district out of the nine ram presses received, only five were distributed to farmers and four were kept in stores since 2004 as shown in the picture 9 below:

Picture 9: Showing undistributed Ram presses lying in Masindi district stores.

Source: photograph taken by OAG staff, March 2013

The limited use of the ram presses was attributed to the fact that the project did not provide continued support to the farmers on the use of ram presses after the AT Uganda contract ended in 2004[148].

It was also attributed to the district policy to distribute to farmers who could pay at least half of the price of the ram press leaving out those who could not afford the amount involved in the cost sharing scheme.

148 VODF Impact Assessment Study, March 2007 page 59

Management Response

The Project procured and distributed 110 ram presses to districts for demonstrations and training of farmer groups in ram press technology, value addition and to popularise sunflower production in areas where there were no mills for processing sunflower. It was envisaged that with the ram press, farmers would increase production which would attract private businessmen to put up processing mills to take advantage of the increased crushing material.

The 343 includes the ram presses purchased from AT-Uganda by farmers, NGOs and other organisations that distributed presses to farmers, as a result of project activities that led to increased production of sunflower and the training done by AT- Uganda on use of the ram press, using funds from the project. The project worked closely with AT- Uganda which distributed 343 ram presses in the project area.

According to project design, the project was supposed to encourage farmers to purchase the ram presses on cash basis. It was not envisaged that the project would set up a revolving fund. The revolving fund initiative was at the level of farmers who wanted to purchase more ram presses for their use.

On some of the ram presses lying idle and not being used currently, this is due to the fact that the farmers have embraced the new motorised milling technologies with the millers. The ram press is manual and is difficult to operate. Since it was the available technology at the beginning of the project, the project used it to promote sunflower. With time, small motorized mills came on the scene and therefore most farmers progressed to motorised mills or sell of their grain to mills that were installed in the project areas by private businessmen. The technology therefore became obsolete in many of the project areas, apart from where there were no mills.

Those that were found in district stores will be handed over to the Procurement and Disposal Unit for appropriate action.

Audit Response

The project completion report does not disaggregate the 343 ram presses as those purchased from AT- Uganda by farmers, NGOs and other organisations.

The VODP Impact Assessment Study 2007 on pg 55 states that the project set up a ram press revolving fund through which farmers accessed the ram press. Besides, information from the farmers' initiative would be obtained to monitor the performance of the ram press scheme.

On the issue of non use due to them being manual and difficult to use, there was no value for money since even after the project purchased 110 ram presses (UGX 36,769,440) and carried out training to the tune of UGX 213,384,000 to various extension workers, local blacksmiths and farmers (North and Eastern Region) on the efficient use, operation and maintenance of those ram presses, they claimed they were difficult to use.

Conclusion

The ram presses distributed by the project were not optimally utilized thereby hindering smallholders from adding value during the extraction of oil.

Recommendations

- The project should continuously provide assistance to beneficiaries of new technologies to ensure their optimum use.
- The project should always keep track of any farmer/ private initiatives to ascertain whether project intentions of value addition are being achieved especially after spending lots of funds on initial training, demonstrations and popularizing such initiatives.

Distillers for Essential Oils

According to the VODP PIM clause 4.4, KARI and PCO were supposed to carry out distillation of Essential Oils for analysis from year one of the project.

Through document review, it was established that two distillers were procured for Tororo and Pallisa districts at a total cost of Shs 16,100,000. Field inspections, however, revealed that the distillers were not in use. The one in Tororo has not been in use since 2007 while the one in Pallisa was delivered in 2008 at the closure of the project. (Picture 10 below refers).

Picture 10: Showing abandoned distiller and incomplete structure in Nagongera Sub-county, Tororo district

Source: photograph taken by OAG staff, March 2013

Management attributed the non-usage of distillers to lack of water for use in processing the essential oils. A lot of water is required in distillation processes yet water shortage was identified as a major challenge by the households that were interviewed.

Lack of water made it difficult for the farmers to distill essential oil from the harvested crop. In addition, the cost of the two distillers amounting to UGX 16,100,000 and other related costs in terms of procurement of land, transportation of the distillers, construction of building, installation and all other incidental costs was therefore put to waste.

Management Response

The project procured distillers for research purposes. The research distillers were made mainly to find out the following:

1. Yield of oils per given volume of grass in different locations, soils and seasons
2. Post-harvest handling of the grass and its effects of quality and quantity of oil
3. Quality of oil from different varieties of grass
4. Oil to use in testing different markets
5. Training of farmers in all stages of oil production and marketing

After the research, the farmers used the distillers to undertake their commercial activities. However, because the distillers were meant for research, they could not meet the demand by the farmers. The project linked the farmers to UDET, an organization that procured a commercial distiller for the farmers at a cost of UGX 350 million, which the farmers have been able to pay back using the sale of the essential oils.

Completion of the shelter was to be contributed by the farmers in a cost sharing arrangement. They also agreed to put in place water harvesting mechanisms

Conclusion/ Audit Response

The distillers could still be utilized by the farmers to process their essential grass however, they lack water. The sustainability of the provision of essential oils is not guaranteed. Oil processing is entirely relying on one distillery which has a low processing capacity and cannot adequately process all the essential crops produced by all farmers. A breakdown of the distillery would result into lack of a processing facility. Transport costs were high making it difficult for farmers to transport their crops from Lira and Pallisa to Nagongera (Tororo) for processing. Some farmers were incurring losses; others were frustrated although those close to the distillery fully supported the project.

Recommendation

Much as the distillers were procured for research purposes, it is important that they are renovated to support the one procured by UDET. The project should work closely with Tororo district to provide water near the distilling facilities.

Commercial Pilot Production of Essential Oils

According to the PIM clause 4.2.4 the PCO was supposed to encourage private sector counterparts to carry out distillation of oils and support farmers to form an outgrowers scheme around the private sector plant.

Whereas research on essential oils, namely: Citronella, Lemon Grass, Africanus prunus, and shea nut was successfully done in the 5 project districts of Mukono, Luwero, Pallisa, Tororo and Lira, the project did not encourage private sector counterparts to carry out the distillation of oils and support farmers to form out growers schemes in the districts of Mukono, Luwero, Palisa and Lira. Consequently the outgrowers' schemes around the anticipated private sector plants in those districts never took off.

Only farmers from Tororo, Nagongera lobbied and acquired a stainless steel processing plant through funding from the African Development Foundation (ADF) through UDET.

The other districts did not have distillers at all. The farmers in these districts attempted to transport their yields to Tororo district, but their efforts were frustrated due to the high costs involved which included transport, fuel, wood and water. This resulted into the farmers abandoning the growing of the essential oil crops. For example, Pallisa district had a total of 2,458 farmers from only two sub counties of Buseta and Kibuku[149] in 2009, but at the time of audit in September 2012, the District Agricultural Officer had no knowledge of any existing Essential oils crop farmers.

149 NACRRI Annual report July2008-June 2009 on essential Oils Activities page 7.

Commercial pilot production was not carried out due to the absence of proper strategy for its implementation. The PCO had a perception that the essential oils component was simply a research project to prove that essential oil crops could be cultivated in Uganda, and did not put in place plans for commercial pilot production.

Failure to carry out the commercial pilot production of essential oils discouraged farmers in other districts from growing essential oil crops, thereby reducing production volumes and earning incomes from the distilled oil.

Management Response

Following research activities in Tororo that resulted in positive results, commercial production was initiated with the farmers at Nagongera under Rabong Cooperative Society. These farmers were supported to develop a proposal which was used to access funding from UDET that provided a commercial distiller that they are using up to today.

Challenges of transporting the raw materials to the plant were identified by the farmers and they suggested different rates of payment for farmers who delivered the grass compared to those whose grass was collected from their homes. This was an effort to in build sustainability in the project.

Conclusion/ Audit Response

The sustainability of benefits from the work on essential oil crops depends on completing the task of identifying and improving linkages in the relevant value chains by the project so that the knowledge generated by the research can be converted into commercial opportunities with benefits for farmers.

The project did not encourage private sector counterparts to install distillers in the other project districts of Mukono, Luwero, Pallisa and Lira leading to high costs of transporting the essential oil grass to Tororo for distillation and consequently abandoning the growing.

Recommendation

The PCO should support farmers to form out growers schemes and provide extension services and planting materials as well as create linkages with the relevant value chains.

Formation of National Essential Oils Association (NEOA)

Clause 4.2.7 of the PIM provides that the project was to facilitate and support the formation of the National Essential Oils Association (NEOA).

Through discussions with the project coordinator, it was established that the project did not facilitate and support the formation of the NEOA. The purpose of the association was to provide a forum through which problems peculiar to the essential oils industry could be identified and solutions found.

The essential oil crop farmers in Tororo were able to form Rabong cooperative society through which they could identify and address some of the problems affecting the farmers. The farmers in the other districts of Mukono, Luwero, Pallisa, and Lira were not able to organize themselves into similar organizations; they therefore had no forum through which their peculiar problems could be addressed.

The project did not facilitate nor support the formation of the NEOA due to the PCO's impression that as far as the essential oils component was concerned, the project objectives were achieved when the research findings were released. It was therefore not necessary to undertake any more activities after that.

The failure to facilitate the formation of NEOA resulted into the farmers lacking a forum through which they could discuss their problems and work out ways to address them. Some farmers eventually abandoned the cultivation of essential oil crops due to the challenges they encountered.

Management Response

Formation of associations is limited to those who want to associate. For commitment, buy in and sense of ownership, the farmers have to initiate the efforts to associate. For essential oils, there were no farmers as such. The project concentrated mainly on research. A national association may in future be formed depending on whether the farmers feel it is necessary or not. Otherwise, these farmers will continue associating under the National Farmers Association in their districts under Uganda National Farmers Federation. One of the major challenges with associations is sustainability and meeting of costs of running the association. That is why the farmers must feel it necessary and there has to be value add in having an association.

The audit recommendations are noted and as the sector grows with private sector investment, platforms will be supported where the farmers and other players along the value chain meet and associate to **address issues that affect the sub sector.**

Conclusion

VODP did not facilitate nor support the formation of NEOA which limited the farmers' ability to address their problems.

Recommendation

The project should adhere to the PIM, which advocates for the facilitation and support of formation of an association. Associating under the National Farmers Association may not be beneficial to these farmers since their interests and problems are unique to their subsector.

Opening of farmer access roads

Under Article 18(5)a of the agreement between government of Uganda and Bidco Oil Company Ltd, the government was to develop and maintain 38kms on Bugala island to serve small holders and out growers.

Through interviews and inspections, it was noted that whereas the roads were developed, they were not maintained. Some roads have developed gullies; others have over grown weeds; while others are too slippery, rendering them impassable as illustrated in picture 11 below.

Picture 11: Showing one of the farmer roads that had developed gullies

Source: OAG picture taken on 28/03/2013 in Kalangala Block.

Management of Kalangala District Local Government attributed the non-maintenance of roads to failure by the project to assign responsibility to a particular institution in regard to the maintenance of access roads.

As a result of non-maintenance of the roads, trucks were not able to access the farmer plantations to collect and transport ffbs to the mill within the stipulated time. This had an effect on the grading of the ffbs, resulting into losses.

Management Response

The project opened roads to ease transportation of inputs and oil palm fresh fruit bunches by farmers. Being murram roads and the fact that Kalangala receives high rainfall, these roads in rainy season get spoilt and in some cases get impassable. The project has put in place a maintenance plan for the roads. The roads that qualify to be community access roads are to be upgraded and handed over to the district that has the mandate to manage and maintain community access roads. Farm roads are a responsibility of the farmers. The project recruited a civil engineer whose main responsibility is to work with the farmers to maintain these roads. The project provided Kalangala District with a road unit to help in opening and maintaining the roads.

In the meantime, the second phase of the project has provided funds for repair and maintenance of the roads as efforts are made to get the farmers to contribute towards maintenance of the farm roads and also the district to manage the access roads.

Conclusion/ Audit Response

Audit appreciates the efforts undertaken by the project to recruit an Engineer and also provide equipment to the Local Government. The maintenance plan for the roads was however not availed for verification. Where roads were fully opened, they were not maintained, which rendered them impassable. As a result, the collection and transportation of FFBs is not done within 24 hours and farmers incur losses in rejected FFBs at the mill.

Recommendation

There is need for the project, Kalangala Local Government and farmers to agree on a long term solution of cost sharing for both road and equipment maintenance. The project needs to also put in place monitoring mechanism for the road unit, so as it is used entirely for its intended purpose

10.2.7 ADAPTIVE RESEARCH

Transfer of Knowledge

Article 2(d) (VI) of the MoU between VODP and NARO required NARO to ensure that the capacity building provided through the training of officers is passed on to other officers of the department concerned to facilitate increased institutional capacity and continuity in implementation.

Through interviews with the principal researcher at COREC, (the NARO institute responsible for research into palm oil), audit established that there was no capacity building of other officers at COREC. The principal researcher at COREC was single handedly conducting research into palm oil. This officer was due for retirement by the end of 2013. No other officer has been trained to carry on with palm oil research after his retirement. A review of the COREC annual report 2008/09, also revealed that the research staff is involved in research activities of other COREC mandate crops, namely: coffee, tea and cocoa and therefore there is a need to have staff deployed solely on oil palm research, especially in agronomy.

The failure to train other officers to engage in palm oil research was attributed to the fact that NARO did not put in place a succession plan to ensure transfer of knowledge through training.

This resulted into limited capacity of COREC to conduct research into palm oil. The institute may also fail to continue with the implementation of research upon the retirement of the principal researcher.

Management Response

Because of the many research needs and the cost implications of the research activities, it is not cost effective for oil palm to have its own research centre and full time researchers at this point. As the crop expands, this will be possible and avenues of funding like private sector support will be explored. NARO has recognized the importance of oil palm research by mainstreaming it as a project under Horticulture and Oil Palm Research Programme at NaCRRI

Audit Response

There is need to train officers for continuity after the retirement of the principal researcher. Oil palm being new in Uganda, the project appraisal report provided for a staff training policy to be instituted to address the short term, medium term and long term capacity needs of NARO/COREC

Conclusion

There were delays to build the capacity of other officers to conduct research into palm oil, which may hinder the continuity of palm oil research.

Recommendation

Now that the project is almost in its 10th year of operation, there is need by VODP and NARO to speed up the efforts of training other officers in palm oil research for purposes of continuity.

Traditional oil seeds

According to the MoU between VODP and NARO Article 2 Annex A, NaSSARI was supposed to carry out research to replace Sunfola and other cultivars of sun flower with superior varieties and release sunflower, groundnut, Sesame and Soy bean varieties that are high yielding with high oil content.

Through document review and interviews, audit established that adaptive research was carried out and improved varieties were released as follows:

Sunflower high breeds of PAN 7351, DK 4040, DKF 68-22, and AGSUN 8251 with high yield potential of over 2000kg/ha and open pollinated sunfola that yields up to 1,600kg/ha for sun flower as compared with local varieties with yields of 600-800kg/ha.

Sesim1 and sesim2 with a high yield potential of 800hg/ha was released as compared with the traditional varieties that yield 400kg/ha.

Serunut1, serunut2, serunut3 and serunut4 varieties of groundnuts with yielding potential of 2,500-3,000kg/ha as compared to 1,500kg for the existing varieties were released.

Maksoy1N, Maksoy2N and Namsoy4M which were early maturing, have a yield potential of 3,000kg/ha, are rust disease and shattering resistant and have large seed size were released.

However, audit established through interviews that some of these improved varieties were released between 2010 and 2013, which was long after the project had ended.

Management of VODP attributed the late release of the improved varieties to the fact that oil seeds were not a priority research area of NASAARI.

Management Response

Some varieties of oil crops being released after the project was closed is not surprising because development of varieties is long term. Development of a new variety starts from making crosses then selecting and evaluating these lines in many locations. This is a long term effort.

Recommendation

VODP should engage NASAARI to ensure early release of improved oil seeds varieties if farmers are to get early returns in VODP2.

Essential Oils

Annex A of Article 2 of the MoU between VODP and NARO required NARO to carry out plant introductions, screening of potential cultivars of essential oils by project year 3 and conduct on station and on farm replication field assessments of selected cultivars by project year 5.

Through review of VODP annual reports and mid-term activity report audit established that in the financial year 1999/2000 (py2) NARO carried out a baseline survey and lemon grass, citronella, geranium, shea nut and prunus africanus were identified as suitable essential oil crops for research purposes. On station trials were undertaken at NARO Kawanda. On farm trials were successfully carried out in the districts of Mbale and Kibale (geranium), Tororo (citronella), Palisa and Lira (lemon grass).

A shea nut nursery was set up in Lira district with about 4000 seedlings, many of the plants, however, died off when the nursery manager abandoned them due to the instability in the region. On farm trials were successfully undertaken on prunus africanus in Mukono district. It was, however, reported in the VODP mid- term activity report on essential oils of December 2008 that project activities on prunus Africana were discontinued due to limited funds.

It was also noted that the sub component depended on a single implementing research partner, whose funding was totally reliant on external funding. The Government/ NARO did not replace IFAD funding at the end of the project.

Recommendation

MAAIF should lobby other partners to carry on the successes that were realized in the essential oils sub component.

OVERALL AUDIT CONCLUSION

Inspite of the achievements registered by the project particularly in regard to the oil palm component, there were significant project delays caused by delayed land acquisition and funding, coupled with operational shortcomings of lack of extension services and distribution channels and limited market linkages. It was also evident that more emphasis was being put on the Oil Palm component of the project with relatively less efforts on the Essential and Traditional Seeds Components. It is hoped that with the recent commencement of the second phase of VODP, the lessons learnt will be applied to fulfill the objectives of the project.

11

11.0 IMPLEMENTATION OF THE FUEL MARKING PROGRAMME (FMP)

11.1 INTRODUCTION

11.1.1BACKGROUND

The oil and gas industry is of critical concern for nations across the globe because it provides the fuel that drives nations and tax revenues that sustain governments and support national economies[150]. However, fuel adulteration, smuggling, dumping and tax evasion pose serious economic and quality challenges to governments and oil companies worldwide. With such risks, the integrity of the fuel supply and efficiency of fuel tax collection is of vital importance.

Uganda's downstream petroleum industry is one of the most competitive in the region with 134 registered players[151]. This has brought about stiff competition and as a result some traders are reported to dilute their products so as to sell cheaply. Additionally, high market prices and high rates of duty on fuel (petrol and diesel) coupled with zero rated kerosene have made the latter a major adulterant[152].

The Government of Uganda through the Ministry of Energy and Mineral Development (MEMD) in collaboration with Oil Marketing Companies established the Fuel Marking Programme (FMP) to control smuggling and dumping of transit fuel products into the country. This was to ensure the quality of fuel products by eliminating fuel adulteration with un-taxed or low-tax fuels in the market thereby providing a leveled ground and fair play within Uganda's petroleum supply and marketing industry. The programme was operationalized through a Memorandum of Understanding between the Ministry and the Uganda National Bureau of Standards (UNBS).

11.1.2 MOTIVATION

The Fuel Marking Programme (FMP) was intended to contribute towards monitoring the quality of petroleum imports products to ensure their compliance to national standards.[153]

However, there have been reports of limited coverage less than the intended 30%[154], low frequency of field monitoring and testing of fuel products which resulted into adulteration, smuggling and dumping going un-detected. Motorists have continuously complained about high costs of vehicle maintenance due to problems caused by widely available adulterated fuel which not only cheats the consumer out of what they are paying for but also puts a fuel dealer's brand into disrepute, and costs Government billions of shillings in revenues each year[155].

150 Fuel Markers & Fuel Tracers/Fuel Authentication & Adulteration Solution – http://www.authentix.com/oil-gas

151 Interview with Senior Petroleum Officer in charge of field monitoring and FMP data base documentary review

152 UNBS quarterly and annual reports and interviews with major Oil Marketing Companies executive directors

153 'Fuel Marking Programme quarterly reports'

154 'FMP field monitoring reports for the audited period'.

155 'UNBS quarterly reports and interviews with executive directors of Oil Marketing Companies'

Issues of violation of the Public Procurement and Disposal of Public Assets (PPDA)'s procurement regulations were raised in an investigative report by the Public Procurement and Disposal of Public Assets Authority on the procurement of M/s Global Fluids International as supplier of the marker and doping agent which also recommended for a value for money audit to be undertaken on the implementation of the programme.

It is against this background that an independent evaluation of the implementation of Fuel Marking and Quality Control Programme was undertaken to identify the performance gaps, possible causes and suggest recommendations for the improvement of the programme.

11.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

The technology used by the fuel marking programme in Uganda has evolved over time. In the late 1990's, government adopted a technology of dyes/colours which were used to identify, monitor and control army and police fuel. Between 1999 and 2007, bio-code technology was used to control adulteration, smuggling and/or dumping.

In 2008, the Ministry of Energy and Mineral Development (MEMD) signed a Memorandum of Understanding with UNBS to collaborate in the implementation of the Fuel Marking Programme. Global Fluid International (GFI) S.A was contracted to supply an advanced petro mark technology with T1- for labeling petrol and diesel and T2 for kerosene markers. The Fuel marking exercise was taken up by UNBS across the country in addition to field monitoring of fuel depots, outlets and testing at the central laboratory in Nakawa.

Effective 1st November 2012, the scope of services rendered by GFI was extended to include supply of marker concentrate and doping the marker while MEMD and UNBS retained the cardinal role of testing and monitoring the marker levels.

Mandate

The MEMD is mandated by the Petroleum Supply Act 2003, Petroleum (Fuel Marking and Quality Control) Regulations 2009 and Petroleum (Fuel Marking and Quality Control Amendment) Regulations 2012, to co-ordinate and supervise all activities related to petroleum quality monitoring, while Uganda National Bureau of Standards (UNBS) is mandated to develop and promote standardization and quality as well as co-ordination in the formulation of standards.

Main Objective of FMP

The main objective of FMP is to streamline petroleum supply and distribution thereby establishing standards and promoting product quality.

Specific Objectives

- To ensure that petroleum products imported into Uganda meet national standards.
- To offer consumer quality assurance and protection for fuel products at fuel station outlets.
- To prevent product malpractices such as smuggling and dumping that result in loss of Government revenue.

Activities Carried out

- Monitoring the quality of fuel imports of petrol, diesel, kerosene, oils and other petroleum products [Bio-Diesel, Liquid Petroleum Gas (LPG)].
- Sensitization of the general public, Government and petroleum industry on matters regarding petroleum quality.
- Monitoring of petroleum products to prevent adulteration, contamination, dilution, dumping and smuggling.
- Maintenance and development of the National Petroleum Information system (NPIS).

Organizational structure

Up until October 2012 when UNBS was marking the fuel, the project was jointly implemented and supervised by MEMD and UNBS. The structure had a laboratory operation unit which was overseen by head of petroleum laboratory operations – PSD while the field operation unit reported to head of petroleum laboratories – UNBS both heads being at the level of Senior

Petroleum Officer. These would compile monthly reports to the two programme coordinators of the programme for onward submission to the Programme Management Committee charged with overseeing operations of the programme. The programme accounts unit was directly under the finance manager UNBS who reported to the programme coordinators. From November 2012 when GFI took over the marking, the project structure was changed where the field supervisor UNBS was left to oversee the joint monitoring operations of the programme and report to the programme coordinator – Assistant Commissioner Standards – PSD - MEMD for onward reporting to PMC. The post of finance manager was dropped making the programme accounts unit report directly to the programme coordinator.

Funding

FMP is a self-financing programme. Oil Marketing Companies are charged a fee per litre marked. For the period under audit (FY 2010/11 to FY 2012/13), a total of UGX 16.8 billion was generated by the Fuel Marking Programme as shown in table 77 below:

Table 77: showing revenue generated by FMP over the period (FY 2010/11 to FY 2012/13)

Financial Year	2010/2011 (UGX '000')	2011/2012 (UGX '000')	2012/2013 (UGX '000')	Total revenue generated by FMP over audited period (UGX '000')
Fuel marking fees	6,461,773	6,477,247	2,590,265	15,529,287
Petroleum laboratory fees	56,950	73,673	75,934	206,558
Penalties & marker up-grade	159,981	26,977	59,378	246,337
Other incomes	-	9,501	1,484	10,986
10%due to FMP account – monitoring and other operational duties	-	-	865,811	865,811
Total	**6,678,705**	**6,587,400**	**3,592,875**	**16,858,980**

Source: FMP financial statements for FY 2010/11 to 2012/13.

11.1.4 AUDIT OBJECTIVES

The overall audit objective was to evaluate the implementation of the programme.

The specific objectives of the audit were:

- To evaluate the process of procurement of the fuel marking agent.
- To assess the extent to which FMP ensures that all petroleum products imported into Uganda meet national standards.
- To assess the extent to which the programme has offered consumer quality assurance and protection for fuel products at fuel outlets.
- To assess the effectiveness of the coordination mechanisms between the key players in the FMP.

11.1.5 AUDIT SCOPE

The audit focused on the Fuel Marking Programme in Uganda which is implemented by the Petroleum Supply Department (PSD) in the Ministry of Energy and Mineral Development (MEMD) and UNBS. The audit covered three financial years 2010/11, 2011/12 and 2012/13.

11.1.6 AUDIT METHODOLOGY

To achieve the audit objective, the following methodology was adopted:

- Evaluation of the process of procurement of the fuel marking agent.
- A review of the procurement process was conducted in comparison with the procurement procedures laid down in the PPDA regulations, 2008.
- Assessment of the extent to which FMP ensures that all petroleum products imported into Uganda meet national standards.
- Through document review, interviews and field inspections, analysis was done to ascertain whether quality tests were undertaken before marking at the three designated marking entry points of Busia, Malaba and Mutukula.
- Assessment of the extent to which the programme has offered consumer quality assurance and protection for fuel products at fuel outlets.
- Comparisons were made on planned monthly field monitoring coverage against actual, reports on marker concentration, sealed off stations and penalties reviewed. Interviews were conducted to ascertain whether the programme developed and operationalised standards for the downstream petroleum products.
- Assessment of the effectiveness of the coordination mechanisms between the key players in the FMP.

Interviews were conducted with URA and Global Fluids International (GFI) officials, PMC members (MEMD & UNBS) and Oil Marketing Companies (OMCs) representatives to ascertain whether there is a proper coordination mechanism with the programme.

Sampling

The three designated fuel marking points of Busia, Malaba and Mutukula were selected for the audit. In order to obtain views of the OMCs on the performance of the programme, the team visited eight (8) of the 139 OMCs operating in the country. Using the monthly import volumes for the period November 2012 to June 2013, the team selected the four (4) topmost and the four least importers of fuel. Other border entry points of Katuna, Mirama Hill and Mpondwe in Western Uganda, Arua and Kitgum in Northern Uganda were also visited as they were perceived by the audit team to be prone to smuggling.

Data collection

The team collected data using the following methods:-

Document review

Various documents in respect of the Fuel Marking Programme were reviewed in order to understand the programme operations.

Interviews

Twenty one (21) interviews were conducted to gain an understanding and to evaluate the implementation of the Fuel Marking Programme as well as to corroborate information obtained from other data collection methods.

Inspection

The team visited all the four major designated fuel marking points of Busia, Malaba (in the East), Mutukula (in the South) and Port bell (at Luzira in Kampala) to evaluate the implementation of the programme. Additionally, using the import volumes for the period November 2012 to June 2013 the four (4) major Oil Marketing Company depots (that is Shell, Total, Gapco and Petro) and depots of four (4) least importers (that is Hash Energy (U) Limited, MOGAS, Moil Uganda Limited and Eco Energy) were visited. The visits were also intended to gather more information to substantiate data obtained from interviews, documentary reviews and to observe operations on the ground.

11.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Prior to 2012, fuel marking and monitoring was being done by UNBS and MEMD. In 2012, management realized a need to separate functions of marking from field monitoring, testing and inspections and accordingly UNBS was delinked from marking. This was a performance assurance tool for monitoring the quality of the service delivery on two fronts as UNBS concentrated on field monitoring.

The major achievements of the programme have been: to establish a central laboratory to test the quality of fuel in the country, acquiring two mobile laboratory vans with a GPS system for country wide monitoring, clearing of the inherent debt burden with GFI - as the technology provider, provision of prompt information and data flow concerning fuel import volumes from customs entry points to the MEMD – PSD on a daily basis and continuous sensitisation and raising awareness of the general public, government and petroleum industry on matters regarding petroleum quality.

In spite of these achievements the study has identified areas for improvement.

11.2.1 COMPREHENSIVENESS OF IMPORT INSPECTION FOR QUALITY PARAMETERS

A Memorandum of Understanding (MOU) was signed between the Ministry of Energy and Mineral Development (MEMD) and Uganda National Bureau of Standards (UNBS) on 30th October 2011 which required that all petroleum products imported into the country are inspected for conformity to standards. Fuel not meeting standards was to be quarantined, assessed and charged. FMP was set up to ensure that all petroleum products entering the country meet national standards by subjecting them to preliminary tests of temperature, density and colour/appearance. These were to be complimented by comprehensive laboratory analysis of sulphur content, viscosity, odour and distillation characteristics.

Accordingly, on 24th September 2012, MEMD signed a contract with M/s Global Fluids International (GFI) which required the latter to carry out product quality checks in terms of density, volume and temperature.

It was established that these preliminary measurements of volume and density which the marking agent tests do not give conclusive results that the fuel is free of adulteration as would be for laboratory comprehensive analysis of sulphur content, viscosity, odour and distillation characteristics which are quality parameters.

The contract the Ministry signed with the marking agent (GFI) did not include all the required quality parameters.

By not subjecting the imported fuel to all the quality parameters, there is a risk of allowing substandard fuel into the country. For instance, records from the central laboratory at UNBS revealed that 16.4% of tests carried out over the period November 2012 to October 2013 had failed quality tests but passed marker level tests. In addition, even fuel that fails preliminary tests is marked and allowed into the country, under instructions not to offload until UNBS conducts comprehensive tests on the product in question, with neither trucking mechanism nor escorts given from customs to Kampala. Furthermore, there were no records of references made by GFI to UNBS's central laboratory since transition in November 2012. It is thus evident that GFI at times marks substandard fuel which had the effect of:

- OMCs incurring additional costs to undertake comprehensive lab tests of their petroleum products before off-loading into their depots.
- High sulphur levels in fuel, which when combined with water vapour, causes corrosive wear on valve guides and cylinder liners, and can lead to premature motor vehicle engine failures[156].
- Use of fuel with high sulphur content resulting into emission of corrosive compounds into the atmosphere causing environmental pollution.

As a result, one of the major OMC, Shell /Vivo Energy, had to establish its own laboratory to address issues of quality of fuel products offered to its clients.

Management response

The scope of quality checks by the Marking Agent on fuel imported into the country is indeed limited to preliminary tests of density and temperature as per operation procedures. Normally, once the preliminary tests indicate any anomaly, the sample is sent to the central laboratory for comprehensive analysis. This comprehensive analysis largely falls under the mandate of the Uganda National Bureau of Standards (UNBS). As such, the fuel marking contract would be overstepping its scope if it were to include comprehensive fuel tests. There is, therefore, no omission in the fuel marking contract in as far as checking the quality of imported fuel is concerned. Consequently, the need to review the

156 Uganda' supply chain – Ref: FMP/MOU 3/268 – April 2013 - Prepared by Field supervisor/FQMP.

said contract for a more comprehensive assessment of quality may not arise.

Management is however concerned of time lag between preliminary fuel tests at the border points and comprehensive analysis at the central laboratory in Kampala. Similarly, duplicating the central laboratory function on border points and subjecting every consignment to comprehensive tests would not only occasion more delays in the supply chain but is also uneconomical. That is why Management has decided to procure semi-automated test equipment for UNBS use at the border points on candidates for central laboratory. The procurement will follow the on-going one for requisite equipment for the central laboratory.

We wish to point out that viscosity and colour are not major quality parameters. In addition, the concern for sulphur content in diesel is largely a point of source issue in the supply chain such as the Kenyan refinery at Mombasa. In the instant case, the regional standard EAS 177:2012 addresses the issue as the guidelines thereof clearly indicate the target for achieving maximum of 500ppm by 31st December 2014. However, the Mombasa refinery has closed down thus the sulphur in diesel is no longer an issue of concern in the fuel supply chain of imports particularly transiting through Kenya.

Conclusion/Audit Response

There were still cases which failed quality tests but had passed the preliminary marker level tests. This fuel could end up in the market. As a result of failure to conduct quality tests at customs entry points, the current tests undertaken by the agent are not comprehensive enough to guarantee the quality of the fuel products imported into the country.

Recommendation

Management of FMP should consider conducting an investigation on the fail tests registered in the central laboratory for the products that had initially passed the preliminary tests to ascertain the extent of the problem. Meanwhile there is need to speed up the procurement process for the semi-automated equipment at the borders to complement the current preliminary tests conducted by GFI with detailed quality tests before marking.

11.2.2 PROCUREMENT OF MARKING AGENT -M/S GLOBAL FLUIDS INTERNATIONAL

In 2008, MEMD – Petroleum Supply Department (PSD) signed a memorandum of understanding with UNBS to collaborate in the implementation of the Fuel Marking Programme. Global Fluids International (GFI) S.A was contracted to supply an advanced petrol mark technology. The fuel marking exercise was taken up by UNBS across the country, in addition to the monitoring of fuel depots, outlets and testing at the central laboratory at Nakawa. In 2012, MEMD made a decision to delink UNBS from the process of import inspection of fuel products (doping the marker) so that they concentrate on monitoring. Accordingly, the ministry carried out a direct procurement process for an agent to supply the marker, verify the quality of all petroleum products entering the country and dope the marker. Subsequently, in November 2012, the scope of services rendered by GFI were extended to include doping of the marker.

Section 46 of the PPDA Act 2003 requires all procurements and disposals to be conducted in a manner that maximizes competition and achieves value for money.

The nature of the procurement and its estimated value necessitated the use of open bidding or any other method approved by the PPDA Authority through a waiver. However, records show that this was not complied with. In an investigation report issued by PPDA, the Authority observed that:

- The new contract involved a substantial change of the terms of reference and the contract price and therefore should have been handled through a competitive bidding process as enshrined under Section 46 of the PPDA Act, 2003.
- The entity decision to use the direct procurement method based on information only available in the Ministry, without establishing from the market whether there were other capable providers was inconsistent with the provision of Sections 45 and 46 of the PPDA Act, 2003. This could have been avoided if the Contracts Committee had properly executed its functions under Section 28 of the same Act.
- The ministry did not conduct a market survey to establish the average market price but only held

negotiations with the provider in order to arrive at the final price of UGX 10 per litre marked, casting doubt as to whether the agreed price would offer value for money.

Audit also under took procedures to confirm the findings in the PPDA investigative report and in addition noted that the procurement was conducted without clearly defined standard statement of requirements, Terms Of Reference and accordingly, the bidding documentation was not based on the standard documents issued by PPDA. Besides, there was no evidence of implementation of some recommendations made by PPDA.

The use of a direct method of procurement denied the ministry opportunities that come with competitive bidding such as fair pricing. The possibility of obtaining a more competetive marking fee could not be ruled out.

Management response

The Authority maintained that some aspects of the PPDA Act and Regulations were not fully complied with and advised that the Ministry should in future adhere to the laid down procedures. As such, Management notes the recommendations for due action.

Conclusion

The procurement of the agent was not undertaken in accordance with the PPDA Act and Regulations thereby denying the ministry the benefits such as fair pricing and value for money that come with competition.

Recommendations

- The Ministry should implement all the recommendations of PPDA, including taking action against the contract committee.
- Management should also consider reviewing the performance of the contract with a view of making the contract more favourable. In future such procurements should be undertaken in accordance with the PPDA Act and Regulations to ensure achievement of value for money.

11.2.3 FIELD MONITORING OF FUEL OUTLETS

The MoU signed between MEMD and UNBS requires that the field monitoring team covers a minimum of 30% of all registered fuel outlets country wide every month thus each station should have been visited at least once in every three months. This was to ensure consumer quality assurance and protection of fuel products at fuel station outlets by checking adulteration, dumping and smuggling.

Through review of monthly field monitoring reports, it was noted that the field monitoring teams met the minimum requirement in only 106 fuel outlets out of the registered 1,177.

259 fuel outlets had not been visited at all during the period under review as summarized in table 78 below;

Table 78: The number of fuel outlets visited over the review period FY2010/11 to FY 2012/13.

Frequency	Never visited (0)	1-5 times	6-9 times	10 and above	Totals number of stations in 2010/2011 – February 2013	Totals number of stations from March 2013 to June 2013
Number of stations	259	505	307	106	1,005	1,177
Percentage	22.0	42.9	26.1	9.0	100%	

Source: OAG analysis of FMP monthly field monitoring reports.

The results also showed that for the period January to July 2013, only 665 (56.5%) of the registered fuel outlets had been visited by the field monitoring team. The remaining 512 fuel outlets had not been visited over the same period as shown the table 79.

Table 79: Showing number of fuel outlets last visited as per period indicated

Years	2013 (Jan to Jul)	2012	2011	2010	Never visited
Number of stations	665	128	105	20	259
Percentages (%)	56.5	10.9	8.9	1.7	22

Source: OAG analysis of FMP monthly field monitoring reports.

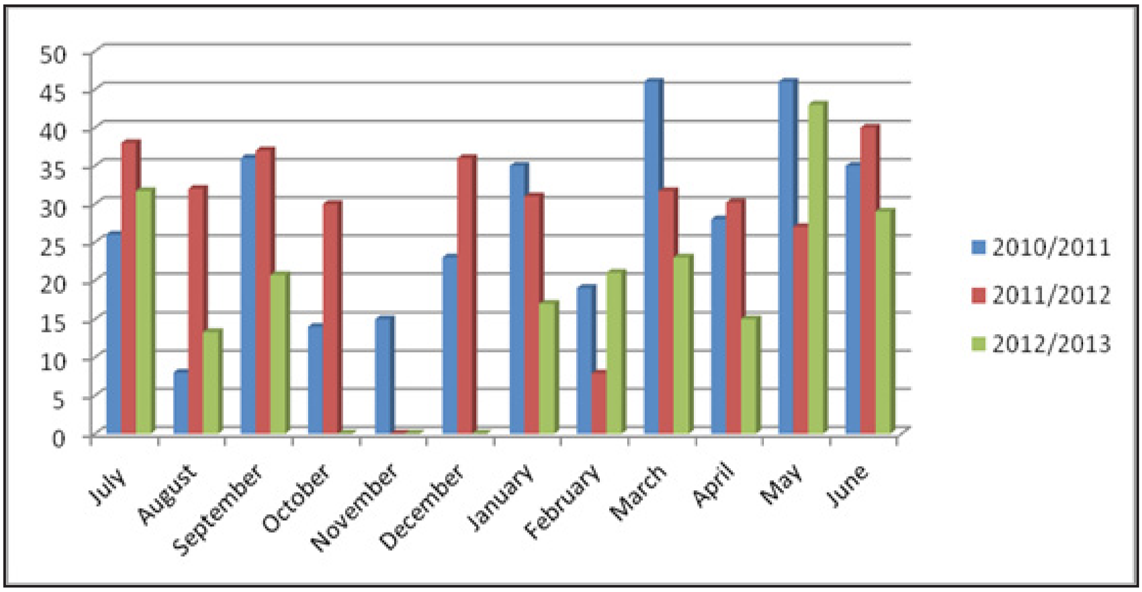
It was further noted that the field monitoring team did not regularly meet the 30% coverage of the total outlets over the audit period. Table 80 below refers. Interviews with 8 selected OMC representatives also revealed that field monitoring by the programme was not adequate and reports on performance of their fuel outlets (feedback) were not furnished to them.

Table 80: Showing Quality monitoring monthly percentage coverage

Months	2010/2011	2011/2012	2012/2013
July	26	38	31.7
August	8	32	13.3
September	36	37	20.7
October	14	30	0
November	15	0	0
December	23	36	0
January	35	31	17
February	19	7.9	21
March	46	31.7	23
April	28	30.2	15
May	46	27	43
June	35	40	29

Source: OAG analysis of FMP field monitoring reports for F/Y s 2010/2011; 2011/2012 and 2012/2013.

Figure 17: Monthly percentage quality monitoring coverage.



Source: Analysis of FMP Field Monitoring Reports

The table and bar graph show that, FMP met the intended coverage of 30% in only five (5) months in FY 2010/2011; nine (9) times in FY 2011/2012 and twice in the whole of FY 2012/2013 which indicated decline in field monitoring coverage.

Through documentary reviews audit attributed inadequate and low level of field monitoring to:

Failure by the ministry to prioritize field monitoring actvities. This led to inadequate budget allocation for monitoring. For instance during the three year audit period, the FMP programme spent a total of UGX.970.5 million on duty allowances for the ministry and UNBS staff attached to the programme compared to UGX 1 bilion spent towards field monitoring over the same period. The roles played by those various staff were not explained at the time of audit. Another UGX 349m meant for monitoring was paid to URA as arrears of PAYE for 2008-2012.

Failure to carry out adequate field monitoring could result in fuel smuggling, adulteration and dumping remaining undetected.

Management response

The programme management has done everything possible under the prevailing limited number of mobile equipment to achieve the marker monitoring coverage requirement of over 30% of each marketer's outlet per month. That is why, besides the high prone areas (such as along transit routes to neighbouring countries), the monitoring has concentrated on mainly Petroleum Motor Spirit (Petrol / PMS) and Automotive Gas Oil (Diesel / AGO) outlets. Future plans for field monitoring include having every region with mobile laboratory vehicle and thus increase on the number of days allocated to the field monitoring staff so that more frequency monitoring of the same station can be achieved resulting into 100% entire retail coverage.

Management discussed with the Marking Agent the possibility of having some of the mobile laboratory vehicles delivered ahead of the schedule in the contract to improve on the monitoring capacity. To this end, one vehicle is already in the country nine (9) months ahead of its schedule and would be ready for deployment by end of March 2014. This will enable management to retire the very old mobile vehicles, rationalize vehicle repair expenses and improve on the monitoring coverage.

Conclusion

The FMP has consistently not met the minimum monthly monitoring coverage requirements due to failure by the ministry to prioritize the activity.This could result into fuel smuggling, adulteration and dumping.

Recommendation

Since field monitoring is critical to the achievement of the programme objectives, its funding should be prioritised.

11.2.4 MARKING FEES

In an effort to review and revise the marking fees in order to clear the debts accumulated by the programme, financing programme procurements, development of a National Petroleum Information System and enhance field monitoring, the programme undertook an evaluation of the fees appropriate to sustain the programme. According to the report prepared by the Programme finance manager, projections of different marking fees were made and a levy of UGX 8 per litre of fuel marked recommended. At this rate the programme would realize a surplus of UGX 926,000,000 which would enable the programme clear its debts, replace most of its assets especially field vehicles, laboratory and office equipment; and increase the monitoring coverage from 22% to 100%. Table 81 below shows the projections:

Table 81: Evaluation of marking fee at different projections in UGX Billion.

Particulars/Levy	5	6.5	7	7.5	8	9
Total revenue	6.624	8.559	9.204	9.849	10.494	11.784
Total expenditure	(9.568)	(9.568)	(9.568)	(9.568)	(9.568)	(9.568)
Projected surplus/ (deficit)	(2.944)	(1.009)	(0.364)	0.281	0.926	2.216

Source: FMP financial report.

It was established that the Ministry did not consider the recommendation and instead set the marking fee at a rate of UGX 10 per litre without conducting a market survey to establish the average market price. As indicated in table 82 above, at UGX10 per litre, the programme would realize a surplus of over UGX 2.2 billion an amount that would be adequate to finance and equip all the critical programme activities. In spite of this increased fee rate, the outputs relating to critical activities like field monitoring and petroleum information system have not been achieved. The OMCs in an interview also indicated that they were not getting value for money for the price charged.

Management response

Setting of Marking fees by the Minister responsible for Petroleum Supply was carried out in accordance with the law (refer to Section 6(2)(a) and Section 44 of the Petroleum Supply Act, 2003. The UGX 10 in the new arrangement was arrived at through the tasks that were to be performed by GFI (as clearly stated in the attached solicitation document that was issued to GFI, the quotation and negotiations). Moreover, the UGX 10 was informed of a similar programme in Tanzania where the same technology provider provides similar scope of services for an equivalent of UGX 10 per litre (exclusive of taxes and with neither remittance of some funds to the Regulator for other programme activities nor provision of equipped mobile laboratory vehicles to facilitate the monitoring function).

Management is of the view that the marking fees are reasonable and the programme is affordable, acceptable and sustainable. Reviews of the fees will be considered as and when the need arises as per the law.

Conclusion

Although management claims the fee is reasonable, the FMP has not achieved some of its key outputs despite charging a fee rate that is 25% higher than that required to make the programme sustainable on a long term basis.

Recommendation

The programme should undertake a comprehensive review of the activities under the programme and align them with the amounts that are charged/remitted to carry out those activities, like monitoring, to ensure the programme is self sustainable.

11.2.5 COORDINATION BETWEEN FMP AND URA

FMP was set up to prevent fuel product malpractices that result in loss of government revenue, such as: fuel dumping and smuggling. This was to be achieved through the establishment of proper coordination mechanism among URA, MEMD, UNBS and GFI.

It was established that there is weak coordination between URA and MEMD on matters regarding FMP. For instance, the review of field monitoring reports over the audited period revealed that there was no reference case made by the FMP field monitoring team to URA in light of either dumped or smuggled fuel onto the local market. A total of 167 outlets were reported to have been sealed off for being in possession of substandard fuel and penalized by the programme an amount of UGX 277,027,420 over the audited period. However, only four (4) reference cases out of 167 sealed stations representing only (2.4%) were referred to URA for further investigations as shown in table 82 below:

Table 82: Dumping cases referred to URA for further investigations.

Date	Name of oil dealer	Remarks
24th February, 2014	Fuelex Uganda Ltd.	It was noted by UNBS's executive director that Fuelex Uganda Ltd had continued with the vice of dumping fuel on the Ugandan market thus not complying with the statutory instrument of the Petroleum (Marking & Quality Control) Regulations of 2009. Accordingly, Fuelex Ntungamo, Fuelex Lweza and Fuelex Kasese were reported to be in possession of un-customized/un-marked fuel in the levels of 95%; 95% and 61% respectively.
31st May, 2010	Hass Mulago	Head of Petroleum Inspection/ laboratory noted that on 29th/05/2010, UNBS field monitoring team visited the retail station and tested a sample of AGO (Diesel No. FI/29/05/10/264B) which failed to meet the marker concentration requirement. Results indicated availability of 23.5% un-marked fuel.
21st May, 2010	Shell Jinja road	The field monitoring team visited the retail station on 19/05/2010 and tested a sample of PMS (gasoline No. FI/19/05/10/190B) which failed to meet marker concentration requirement.
20th May, 2010	Shell Entebbe and Shell Malindi Entebbe.	On 19th/05/2010, the field monitoring team visited the retail stations and tested a sample of PMS (gasoline field No. FI/19/05/169A), GASOLINE (V-Power field No. FI/19/05/171A) and PMS (gasoline – field No. FI/19/05/165A) which all failed to meet the marker concentration requirement. Results indicated availability of 13%, 8% and 11% respectively of un-marked fuel.

Source: OAG analysis of UNBS's dumping reference cases to URA.

In addition, the analysis of fuel import data provided by URA and GFI for the period 01/11/12 to 30/6/13 reflected an unreconciled volume of 6,332,090 litres of fuel over and above the URA import volume. This unreconciled volume had tax implications equivalent to UGX. 4,978,118,360 which could have been lost as shown in table 83 below:

Table 83: Volumes imported over the period under GFI (01st November 2012 – 30th June 2013.

Data source	URA (fuel in litres)	GFI (fuel in litres)	Variance in litres	Possible revenue loss (UGX)
Petrol	507,510,528	512,252,318	4,741,790	4,030,521,500
Diesel	616,766,551	618,521,360	1,754,809	947,596,860
Kerosene	70,507,107	70,342,598	-164,509	0
Totals	1,194,784,186	1,201,116,276	6,332,090	4,978,118,360

Source: OAG analysis of GFI and URA fuel import data. Key: Tax rate used Petrol UGX 850 and Diesel UGX 540.

Weaknesses in coordination arose from lack of proper arrangements and mechanisms for information sharing. As a result connivance of field monitoring staff with fuel outlet dealers may go undetected. This may result into loss of tax revenue and the programme failing to achieve its expected outputs.

Management response

Ever since the programme has been in place, the coordination framework between the programme and URA has been in place with reference to volume verification of all imported fuel product. Our marker doping inventory records were the source of volume of fuel import used by URA in the tax levy to the OMC's. This coordination practice is still the same with GFI in offering data to URA for taxation.

The non-conformity with respect to dumping cases from field monitoring have always been forwarded to URA for action. In addition, joint field monitoring operations have always been conducted for fuel trucks arrested on suspicion of smuggling.

Going forward, Management notes the need to enhance documentation on such collaborations.

Conclusion/Audit Response

There was no evidence provided to verify the coordination. The coordination mechanism between Uganda Revenue Authority (URA) and FMP was inadequate over the review period, much as the programme was established with intentions of supporting URA in collecting government revenue. The unreconciled variance was also not explained.

Recommendations

- FMP should establish and enforce procedures for information sharing with all the stakeholders.
- FMP should explain the identified variances.

11.2.6MANAGEMENT AND UTILIZATION OF READY TO USE MARKER BY UNBS AND MEMD

According to the Memorandum of Understanding between MEMD and UNBS (renewed on 30th October 2011), UNBS was to mark all petroleum products entering the country, store, transport and account for all the marker solution supplied by M/s GFI.

From the analysis of FMP monthly and annual reports, it was established that there were cases of quantities of marker that were not accounted for as summarized in table 84 below:

Table 84: Table showing potential revenue lost.

Period	2010/2011		2011/2012		Totals litres	Total in (UGX)
Marker Type	T1	T2	T1	T2		
Brought forward/ Opening balances (A)	16,270	3,485	14,077	2,197		
Litres supplied (B)	54,180	10,380	60,710	12,594		
Total available for use C= (A+B)	70,450	13,865	74,787	14,791		
Litres Used (D) as per records	56,373	11,668	59,902	11,610		
Litres expected to be Marked E = D*Marker ratios	1,127,460,000	77,787,056	1,198,040,000	77,400,387		
*Actual litres marked (F)	1,207,126,147	75,033,430	1,198,381,416	77,405,992		
Difference in litres G= (E-F)	79,666,147	(2,753,237)	341,416	5,605	77,259,931	
Anticipated revenue gain/ lost (@ UGX 5) H= G* Sh.5 marking fee	398,330,735	(13,768,130)	1,707,080	28,025		386,297,710
Expected marker Balance in litres I= C - D	14,077	2,197	14,885	3,181		
Actual balance as per records (J)	14,077	2,197	5,708	2,950		
Difference in litres of marker K= I-J	0	0	9,177	231		
Litres that would have been marked L = K* Marker ratios.	0	0	183,540,000	1,540,008	185,080,008	
Anticipated revenue lost (@ UGX 5) M	0	0	(917,700,000)	(7,700,040)		(925,400,040)
Anticipated Total revenue gained/ lost N = H+M	398,330,735	(13,768,130)	(915,992,920)	(7,672,015)		(539,102,330)

Source: OAG analysis of FMP monthly and annual reports.

[1 litre of T1 marks 20,000 litres of Petrol/diesel while 1 litre of T2 marks 6,666.7 litres of kerosene as derived from UNBS and MEMD - PSD records].

The results of the analysis showed that 9,177 litres of T1 and 231 litres of T2 remained unaccounted for in the financial year 2011/2012. This quantity could be used to mark 185,080,008 litres of fuel and in turn generate UGX 925,400,040 in revenue for FMP at UGX. 5 per litre marked which could have been lost.

In addition, using the ratios provided by UNBS and MEMD - PSD, extra litres amounting 79,666,147 of PMS and AGO were reported to have been marked in financial year 2010/2011 while 341,416 were reported in 2011/2012. On the contrary 2,753,237 litres of kerosene that would have been marked in financial 2010/2011 was not marked while in 2011/2012, 5,605 extra litres of kerosene were reported to have been marked. This led to a revenue gain of UGX 398,330,735 and net government revenue that could have been lost of UGX 539,102,330.

Management response

The Standard Operating Procedures (SOP) under the current GFI has changed given the upgrade of the software detector version now in place. Management is of the view that there are no significant quantities of marker unaccounted for due to the following;

a) The expected level of marker in the PMS & AGO was 2.00 ppm, with a standard deviation of ±7% (0.14 ppm) taking into consideration of human, environmental and instrumental errors.

   There were incidences where the added marker gave concentrations less than 2.00 ppm. This cumulative addition of marker in low ranges gave volume of fuel doped to be in excess.

   Additionally, there could be incidences where marker added gave a final concentration greater than 2.00 ppm, and in such cases the cumulative volume of fuel doped resulted in loss of marker used.

b) The difference in marker available at the end of financial year 2011/2012 arose from some marker that was available at the UNBS HQ – Nakawa that had not been captured in the final balances of 2011/2012.

c) Given the above analysis, there were no significant quantities of unaccounted for marker as per the table appended.

Conclusion/Audit Response

The inability of the programme to adequately control the marker usage resulted into significant quantities of the marker remaining unaccounted for. 9,177 litres of T1 is quite significant as it should have generated UGX 915 million in revenues to the programme.

Recommendation

Management should ensure that the lost marker is properly accounted for.

11.2.7 NATIONAL PETROLEUM INFORMATION SYSTEM

Among the activities that were meant to be executed by the FMP was the development and maintenance of the National Petroleum Information system (NPIS). Data collected from the laboratory, import inspection, and monitoring operations was to be captured into the system to be used for information sharing, easy retrieval and aid in decision making.

It was established that by the time of the audit the NPIS had not been developed. The programme has continued to operate with a manual system which was noted to have challenges like lack of consolidation, delays in retrieval of various information and susceptibility to errors. This impact on timely decision making by the key players involved in the programme.

The failure to have the NPIS was attributed to lack of funding. However, there were also indications that the ministry did not prioritize the activity as no provision had been made in the policy statements during the three year period under review.

Management response

In the 2013/14 FY, the Ministry availed resources for the National Petroleum Information System (NPIS) under a capital development project and embarked on procurement of a consultant to develop the System. At the moment, the draft contract is with the Solicitor General's office for due clearance.

In the meantime, the programme has software in the mobile laboratory vans that transmits test results to the Ministry and UNBS automatically and also shows the location of stations being tested. The NPIS to be developed will benefit from the prevailing practice.

Conclusion/Audit comments

Audit notes the procurement process to have the NPIS developed. A follow up audit will be undertaken to assess the progress and performance of the System.

Recommendation

It is important that comprehensive needs assessment and liaison with all stakeholders is undertaken so as to develop a system that will address stakeholder information needs. These stakeholders should include URA, UNBS, OMCs, and GFI.

11.2.8 DEVELOPMENT OF STANDARDS

According to the MoU between MEMD and UNBS, the two agencies were to work together to develop standards for the downstream petroleum sector.

A total of UGX 143,606,000 was accordingly budgeted for development of standards under FMP. Financial records show that UGX 217,137,000 was spent from the programme funds towards the activity over the period FY 2010/11 to FY 2012/13 to develop 62 standards comprising of forty (40) products standards and twenty two (22) facilities standards. Only forty-three (43) standards were developed and gazetted in November 2012. The balance of nineteen (19) had not been developed. Besides, even the 43 standards gazetted had not yet been operationalized.

Audit attributed the delay to the large number of standards developed at the same time.

Failure to fully gazette and operationalize the standards impacts on the smooth operation of the downstream petroleum sector. In the absence of standards, field monitoring is rendered difficult.

Management response

Management is soon implementing a stakeholders' sensitization workshop as the key step to operationalizing standards.

Conclusion

In spite of an investment of UGX 217.1 million into the development of standards, the FMP continues to operate without standards as a result of delays by the Ministry and UNBS to have them gazetted and operationalized.

Recommendation

MEMD and UNBS should expedite the process of formulation of standards, and ensure that they are gazetted and operationalised.

11.2.9 EQUIPPING AND MAINTENANCE OF THE CENTRAL LABORATORY

MEMD is responsible for equipping and maintaining the main and mobile laboratory equipment and ensure that the petroleum laboratory functions properly - nationally, regionally and internationally and prepare it towards accreditation[157].

Through interviews with senior petroleum officer and field inspection of the main laboratory, it was established that the laboratory was not fully equipped and maintained to standard as a number of key equipment were missing namely atmospheric distillation apparatus, equipment for kinematic viscosity, copper strip corrosion tests, equipment for flash point tests, carbon residue apparatus, sulphur testing, water distillation bath, colour ASTM standard equipment, smoke point apparatus, muffle furnace, conductivity apparatus and Reid vapor pressure apparatus. In addition, the current petroleum laboratory does not have equipment for testing octane and cetane numbers for petrol and diesel respectively. This equipment and the parameters they test are very critical for fuel quality and engine performance.

This was attributed to lack of funds.

Management response

The distillation characteristics apparatus, kinematic viscosity, copper strip corrosion tests, flush point test, colour, conductivity meter, muffle furnace, have been serviced and the current budget has provided funds for procuring the major equipment for quality analysis as per current EAS 158:2012 for PMS , EAS 177:2012 for AGO, US 803:2008 for BIK, and jet-A1 standards. At the moment, the draft contract is with the Solicitor General's office for due clearance.

157 MoU between UNBS and MEMD

Conclusion

Management efforts to have some apparatus serviced and procured have been noted.

A follow up audit will be undertaken to establish the status.

Recommendation

MEMD should expedite the procurement process to ensure that the petroleum laboratories are adequately equipped and maintained to function properly to expected standards.

11.2.10 ITEMS FMP SWAPPED WITH M/S GFI

Where there is a swap, it is good practice to have the items in question surveyed, quantified and valued. The swap should be undertaken in accordance with the law.

From a review of the hand over report of UNBS to M/s GFI, it was established that programme assets proposed for swapping during transition were valued UGX. 610,721,340 of which GFI agreed to take over assets worth UGX 574,082,340 which remained un paid for to date yet the latter was demanding over UGX1.3 billion in unpaid arrears from the programme for supply of the marker.

The loss of these assets was caused by the disregard of the existing government regulations and best practice.

Management response

The programme has addressed the disposal of the significant items that had been proposed for swap to GFI such as seal, marker T1 & T2. This process is ongoing and is being handled by UNBS procurement division. The other items like tables, chairs, measuring cylinders, and thermometers will be disposed off since the marking agent is not using them at all. Some of the other items will remain for use by the UNBS and ministry staff on the programme.

Conclusion

Given the lapse of time since the transition was made in November 2012, disregard of government regulations could not be ruled out and as a result, assets worth UGX 574 million could be lost to the marking agent.

Recommendation

There is need to speed up the disposal process so as to avoid further dilution of value of assets due to obsolescence, continued usage and handling.

OVERALL AUDIT CONCLUSION

Although the programme has achieved positive results over the years, fuel adulteration and dumping remain a challenge to government since the programme has not been effective in addressing these vices. More efforts in terms of import quality inspections, prioritization of field monitoring and equipping of the central laboratory are necessary if the programme is to achieve its stated objectives. It is hoped that with the promised interventions, the Ministry will go a long way towards achieving its goals.

12

12.0 PRODUCTION OF PRICE INDICES BY UBOS

12.1 INTRODUCTION

12.1.1 MOTIVATION

Statistics is important not only for informing government policy and decision making but also for guiding private investment decisions. The Uganda Bureau of Statistics (UBoS) is responsible for the development of Statistics in the country to support and inform the national and international development agenda.

The fragility of information from UBoS cannot be overemphasized. Various stakeholders in the country rely on statistics, such as: the Consumer Price Index (CPI), Gross Domestic Product (GDP), and inflation as a basis for assessing people's livelihoods. In March 2011, UBoS published that the CPI had grown by 4% in March of that year from the previous month figure (from 153.16 to 160.83) and that inflation was 11.1% up from 6%. The annual food inflation rate had increased to 23.7% for the year ending March 2011 compared to 8.9% recorded for the year ended February 2011. The rising cost of living as portrayed by these statistics was, according to Aljazeera[158], among many issues that inspired the protests by politicians in Uganda.

My audit reports (2011/12) on Uganda National Road Agency (UNRA) highlighted payments of over UGX 94.5 billion made to road construction contractors[159] as a result of variation in prices. UNRA utilizes price indices produced by UBoS to formulate the price escalation clauses in its contracts which are the basis of the variation in prices paid to contractors arising out of increases in costs of construction inputs. According to these audit reports, in some instances the formulae for computation of Variation of payment were wrongly applied leading to irregular payments. The construction sector has also raised concerns over the delays in publication of indices and the regular adjustments made to the published indices data of all which impact on their cash flow planning and management.

According to the UBoS Strategic Plan 2007-12, there are also a number of weaknesses and threats faced in the production of statistics that could affect the accomplishment of its mission and strategic objectives. Notably, among these were: matching data production with the policy making cycle, low public appreciation of the value of statistics, lack of objectivity in the data generated at the district level by planning, limited staff with multiple skills. These challenges, which manifest themselves during data collection, implementation of censuses and surveys, dissemination and use of information, could impact the final indices produced by the Bureau.

On the basis of these concerns, the OAG found it necessary to undertake an independent assessment on the production of indices by Uganda Bureau of Statistics to ascertain the extent to which the indices can be relied upon to produce credible statistics for decision making.

158 www.aljazeera.com/indepth/features/2011/04/201142831330647345.html - 28th April 2011.

159 Fortportal – Bundibugyo Road Project, Nyakahita – Kazo Road and Malaba – Busia – Bugiri Road Projects.

12.1.2 DESCRIPTION OF THE AUDIT AREA

Uganda Bureau of Statistics is a semi-autonomous body established by the Uganda Bureau of Statistics Act (1998) to be the principal data collecting and disseminating agency responsible for coordinating, monitoring and supervising the National Statistical System (NSS). The Act provided for the development and maintenance of a National Statistical System to ensure collection, analysis and publication of integrated, relevant, reliable and timely statistical information.

The Bureau, among its other duties, prepares various indices to guide planning, budgeting and policy formulation. UBoS produces 3 major categories of price indices, including: CPI, PPI, and CSI. These indices are produced through collection of information from various stakeholders, analysis of the data and publishing the results to the various users in government, private sector and the international community.

The Bureau has its headquarters at Kampala and two zonal offices: Mbarara and Gulu, to strengthen statistical coordination and harmonize statistical programs at local government level. These offices are responsible for the field work of the Bureau within the local governments.

Vision and Mission Statement

The Vision is to "**To become a centre of excellence in statistical production"** whereas its

Mission is "**To develop a coherent, reliable, efficient and demand driven National Statistical System that supports management and development initiatives**".

UBoS Objectives

The strategic objectives of the UBoS are:

- To develop a coherent, reliable, efficient and demand-driven UBoS Statistical System that supports management and development initiatives through effective "coordination and management" of the National Statistical Systems.
- To strengthen sectoral human resource development and management capacity for collection, analysis, dissemination and utilization of statistics.
- To strengthen statistical development programs through generating and disseminating demand-driven statistics.

Organizational structure

The Bureau is managed by a Board of Directors, responsible for policy formulation and strategic guidance and reports to the Minister of Finance Planning and Economic Development (MoFPED).

The management function is headed by the Executive Director supported by two Deputy Executive Directors in charge of Corporate Services (DED/CS) and Statistical Production and Development (DED/SPD). There are also Directors and Division Managers and other categories of staff at various levels.

Funding

UBoS received a total of 132.5bn to run its activities over the four (4) years under review as detailed in table 85 below:

Table 85: Funding received by the Uganda Bureau of Statistics (UBoS).

FUNDING SOURCE	FINANCIAL YEARS				TOTAL (Shs in bn)
	2009/10 (Shsbn)	2010/11 (Shsbn)	2011/12 (Shsbn)	2012/13 (Shsbn)	
Recurrent	25.4	21.8	42.7	20.6*	110.7
Donor Development	6.8	0	0	15.0*	21.8
Total	32.2	21.8	42.7	35.6*	132.5

Source: Audited accounts – UBoS.* Approved budget

12.1.3 AUDIT OBJECTIVES

The overall objective of the study was to evaluate the process of production of indices in order to establish the extent to which they can be relied upon to produce credible statistics for decision making.

The specific objectives of the Audit were:-

- To assess the adequacy of the methodology used to produce indices.
- To establish the appropriateness of the sampling methods and design used in the production of indices.
- To assess the reliability of the computer system used in compiling indices.
- To assess the effectiveness of the dissemination and coordination mechanisms with the various key stakeholders.

12.1.4 SCOPE

The study focused on the production of price indices by UBOS. This was a countrywide study, since UBOS collects data that reflects the state of the whole country. The study focused on the UBoS headquarters and its zonal offices of Mbarara, Gulu, Arua and Jinja districts. These are 4 of 7 urban centres from which UBoS collects data for production of indices. In order to obtain a better understanding of the trend of these indices, the study covered four (4) financial years- 2009/10, 2010/11, 2011/12 and 2012/13.

SITUATION ANALYSIS FOR PRODUCTION OF INDICES

Consumer Price Index (CPI)

The Consumer Price Index, CPI) can be defined as an average measure of change of goods and services bought for the purpose of consumption by households in a country over a given period of time. CPIs measure changes over time in the general level of prices of goods and services that households acquire, (use or pay for) for the purpose of consumption. This should, therefore, be a National Statistic showing price changes across the country for the rich and the poor, rural and urban households alike. In many countries they were originally introduced to provide a measure of the changes in the living costs faced by workers, so that wage increases could be related to the changing levels of prices. However, over the years, CPIs have widened their scope, and nowadays are widely used as a macroeconomic indicator of inflation, as a tool by governments and central banks for inflation targeting and for monitoring price stability, and as deflators in the national accounts. With the globalisation of trade and production and the liberalisation of the markets, national governments, central banks and international organisations place great importance on the quality and accuracy of national CPIs, and in their international comparability.

In Uganda, data from only eight urban centres selected using the 1991 population census of the most populated districts, are used to determine the national CPI.CPI is computed as a measure of average prices for a fixed basket of household consumption goods and services. This measure is taken as the change over time in the cost of purchasing a given basket of goods and services bought by households during a reference period. Thus CPI is defined more precisely as a measure of the changing cost over time of purchasing the base period fixed basket of goods and services. The current expenditure weights for the CPI are based on the Uganda National Household Survey, (UNHS 2005/06).

Currently, Consumer prices in Uganda are collected from seven urban centres: Kampala, Jinja, Mbale, Masaka, Mbarara, Gulu and Arua. Apart from Kampala, each of the remaining six urban centres has its own basket of goods and services based on the expenditure patterns of the households within the area. Kampala is sub-divided into two baskets: Kampala High Income and Kampala Middle & Low Income baskets. Thus, there are eight baskets that constitute the National CPI. An index for each basket is computed separately, thereafter, a combined national index is computed as a weighted average of the eight baskets.

The national consumer price index is computed and published on a monthly basis. Generally, prices are collected from the first working day of the month until the 15th of the same month that is, consumer prices are collected within the first two weeks of the month.

CPI in Uganda is computed in two stages, namely: Elementary Aggregate stage and Higher Level Aggregate stage. The elementary aggregate indices are computed using the Jevons index formula. The higher-level indices are computed as a weighted average of the elementary aggregate indices, using the Modified Laspeyres formula. The Higher Level Indices that are computed and published by UBoS are:

- The Headline Consumer Price Index. This index measures inflation in Uganda when all items in the basket are included.
- The Underlying/Core Consumer Price Index. This measures relative changes in prices for all goods and services excluding food crops, milk and tobacco leaves. Those items are excluded to eliminate the effects of drought and other weather changes that cause irregular price fluctuations. Prices of imported fuels, administered prices of electricity and metered water are also excluded while compiling the Underlying/Core Consumer Price Index. This is the index that is highly used in the country to monitor monetary policies and inflation targeting.
- The Food Crops Index. This index includes staple foods, fresh fruits, fresh vegetables, fresh milk and tobacco leaves. It is an index that incorporates all goods whose production, supply and prices are more volatile with weather changes compared to the rest of the products.
- The Food Index measures the relative changes in prices of food items.
- The Non-Food index excludes all food items during the CPI computations.
- Energy, Fuel and Utilities Index includes prices for gas, petrol, diesel and paraffin. It also includes charges for metered water and electricity.
- The services index measures change in prices of all items in the services sector in the basket. The services index comprises the following broad categories: Rent, household maintenance, electricity, water, transport, communication, health, education, laundry, dry cleaning, entertainment, restaurant services, hotel services, hair dressing services and radio announcements.
- The other goods index measures relative change in prices of all items in the basket, excluding all services, fresh food produce, fresh milk and tobacco leaves. The other goods inflation comprises the following broad categories: Manufactured foods, beverages, tobacco, clothing, foot wear, charcoal, paraffin, household goods, personal goods and all goods related to transport, such as: petrol, lubricating oil, oil filter, spare parts and the like.

The goods and services in the CPI basket are classified into 8 groups, 35 sub-groups and 276 Elementary Aggregates (EAs). Individual sub-group indices are computed for each of the eight baskets and for the composite basket though they are not officially published. The Ugandan country product classification was used to categorise Elementary Aggregates (EAs) into Sub-Groups and Sub-Groups into Groups. The eight Groups in the Ugandan CPI basket are: (i) Food; (ii) Beverages & Tobacco; (iii) Clothing & Footwear; (iv)Rent, Fuel &

Utilities; (v) Household & Personal goods; (vi) Transport & Communication; (vii) Education; and (viii) Health, Entertainment and Other goods & Services.

Producer Price Index (PPI)

The second index produced is the Producer Price Index, (PPI). The PPI is the measure of the average change over time in the selling prices received by domestic producers for their output. The extra inputs into validating data collection are key elements towards ensuring data quality. For example, when collecting labour wages data from owners of companies, it is important to cross -check this data with, say, the National Social Security Fund figures, Uganda Revenue Authority (URA) data or the labourers themselves, to ensure that the figures being collected reflect the true movement of salaries. Thus, when operating in environments where systems are yet to develop, as it is in developed countries, adequate verification of data is important in generating reliable prices, a basis for production of indices.

A price index is a measure of the proportionate, or percentage, changes in a set of prices over time. PPIs measure changes in the prices of domestic producer goods and services. Such measures need to distinguish between changes in the volume of domestic production and such changes in nominal terms. Because the prices of different goods and services do not all change at the same rate, a price index can reflect only their average movement. A price index typically assumes a value of unity, or 100, in some base period. The values of the index for other periods of time show the average proportionate, or percentage, change in prices from the base period. Price indices can also measure differences in price levels between different cities, regions, or countries at the same point of time.

The Uganda Bureau of Statistics (UBOS) is currently calculating the Output PPIs for the Manufacturing sector (PPI-M). An output PPI-M measures the rate of change in the prices of products sold as they leave the producer. The PPI-M is for both goods produced for the local market and those produced for export. This PPI-M at the moment covers the **'formal'** Manufacturing sector. It measures the change in the effective unit selling prices received by manufacturers for products sold for both home market and exports. The PPI-M, are based on a 'fixed basket of goods' concept. Thus they reflect the price trends of a constant basket of products representing the outputs of the selected industries.

A wide collection of representative products were selected in August 2004 and the prices of these fixed sets of goods are collected each month since then. Monthly price changes are compared with the base period price which is the average of the prices of selected goods for the months of July to September 2004. The movements in these prices are weighted to reflect the relative importance of the products within each industry group. These are then aggregated for various sectors of industry to give the required indices.

In Uganda the main use of the PPIs being deflators for National Accounts.

The PPI covers all establishments employing 10 or more persons, whose output is mainly sold on the domestic market that is divisions 15 to 37 of the Standard Industrial Classification of Economic Activities (ISIC, Rev 3 of 1990). Manufacturing is defined as the mechanical transformation of inorganic or organic substances into new products. However, in Uganda, it is often not feasible to distinguish manufacturing processes from agricultural activities. The Outputs of coffee, tea, sugar, banana and beer shown in manufacturing include the cost of plantation as well.

The manufacturing activities are classified under the following main groups: food, beverages and tobacco; textile, wearing apparel and leather/skin; wood and wood products; paper and paper products, printing and publishing; chemical and chemical products, petroleum, coal, rubber and plastic, non-metallic minerals; and basic metal.

The base year selected for the PPI compilation was the average prices of three months in 2004, thus the average of July to September 2004. The reason for selection of this was due to the availability of price data and weights from the 2000/2001 Uganda Business Inquiry.

The reference year for the calculation of price relatives is therefore an average Producer Price in the second quarter of 2004. The base price for a particular product is obtained as an arithmetic mean of the three months (July-September 2004)

The weights are calculated from the gross output figures derived from the 2000/2001 Uganda Business Inquiry. Gross output is valued at basic prices and thus excludes all taxes on products, namely: excise duties and value added tax. The weight of a product group represents the share of its gross output out of the total output of the manufacturing sector.

The PPI is produced in a hierarchical way-the index is first calculated at the 4-digits level of the ISIC Rev 3. Indices at the Division (2-digit level) are then derived as a weighted average of the indices of the products falling within each division. Finally, the overall index for manufacturing is obtained as a weighted average of the Division indices. The PPI is calculated according to the Laspeyres formula, which is the weighted average of price relatives.

Construction Sector Index (CSI)

The third index produced by UBOS is the Construction Sector Index (CSI). The CSI is defined as the average measure of change of goods and services bought for the purpose of construction sector in a country over a given period of time. The CSI may be affected by the sample size from which data is collected for its preparation. When the sample is small and there are variations in prices, the standard errors in the data will be relatively high, thus affecting people in a variety of ways. Furthermore, the list of basic headings used in the calculation of the CSI for the key items and the number of products that are used in its construction are paramount. In particular, the cost of equipment both purchased and hired. The method of imputation, including monitoring the standard errors and the proportion of prices imputed, are equally important in the reliability of the CSI. The issues of methodology include: completeness of questionnaire items, manuals, mode of data collection, coding, validation, data cleaning, data entry procedure and systems integrity and are key in examining reliability of indices.

The construction sector price indices are numbers that show the relative level of prices in construction sector relative to the base period. They measure the cost of given sets (baskets) of construction goods and services, relative to their cost in the base period.

In Uganda, the construction sector price indices are needed for monitoring the cost of construction work over time; contract price escalation; and understanding the contribution the construction sector is making to developments in the national economy.

The first quarter (i.e., January-March) of 2006 was chosen as the base period for the CSIs. The numbers in other periods therefore indicate the level of prices relative to this period. The basket of goods and services for each index reflect the quantities of basic heading components used in an average project in the category concerned. The composite CSI price indices are calculated using the modified Laspeyres formula.

Given the cost of data collection, most of the data used in the CSI indices are taken from existing sources already available within UBoS. These sources are as follows: PPI, CPI, and External Trade Statistics (used for road lime). In addition, prices of bitumen and diesel are collected directly from oil companies, while data on wages paid for construction labour are collected from a number of construction companies every quarter.

12.1.5 AUDIT METHODOLOGY

Three indices were assessed in this study, the Consumer price Indices which are compiled monthly, the Production Price Indices and Construction Price Indices which are compiled quarterly. The tasks outlined below were undertaken in assessment of each of the three sets of indices separately as they are compiled separately by different Directorates using different sets of data.

The methodology involved a comparative analysis of the expected as provided by the international standards and the actual practice as given by the findings from UBOS. The methodology involved review of available literature, manuals, reports and other documents on indices at UBoS, other Bureaus, United Nations and World Bank and ILO Manuals on Indices, and other sources. This review was for the purpose of comparing policies and recommendations used in the development of indices internationally with those at UBOS.

Checklists were developed and used to guide the assessment process. The three checklists included that for sampling process, indices' methodology process and computer systems and analysis software.

Review of Sampling and Survey Methodologies used in collection of data for the CPI, PPI and CSI indices from 2008 to 2013

- **Assessment of adequacy of survey samples to produce reliable data.** This involved identifying domains of study for which indices are computed; verification of the level of precision for the domains of study, especially the smallest domains of study and assessing whether they were not above required maximum acceptable precision level.
- **Assessment of Selection criteria for the businesses/outlets/markets**. This involved the review of procedures used in compiling the registers for the existing outlets/businesses/markets; assessment of use of the International standard classification of products and/or International standard classification of economic activities or other international standards in categorization and selection of businesses, outlets and/or markets.
- **Assessment of Representativeness**. The factors considered included: adequacy of size of a category being represented; variety and structure of population to be represented; appropriateness of selection methods suggested and methods actually used in line with current practices.
- **Assessment of whether sampled geographical areas were adequate to represent the entire population.** This involved assessment of: Geographical areas and price disparities/variations, method used for sample selection, when Master Samples were developed/replaced, replacement criteria and frequency used for the PSUs, respondent fatigue and possible remedy.
- **Assessment of whether basket of goods & services used in computation of indices reflected expenditure patterns of the population**. This involved: Review of how expenditure patterns of the population are assessed; review of how basket of goods and services for the different categories of the population were determined; and management of changes in expenditure patterns: changes in the basket of goods and services for the different categories of the population – whether the changes are periodically assessed, methods of assessment and measures taken to address the changes
- **Whether Weights attached to goods and services in the basket reflected the relative importance of all items in the basket;** Current best practice in determination of weights versus UBoS practice and assessment of the weights of the goods currently used

Development of Price Indices

- **Review Manuals/policies used in computation of indices compared to international best practice.** This involved: Review of international policies and best practices in relation to current changes; review of regional recommendations for computation of Price Indices, assessment of policies used and assessment of Manuals used.
- **Assessment of adequacy of methodologies used by UBOS in production of price indices.** This involved: Assessment of the Price Index formulae used and assessment of inputs – content, quality and representativeness.
- **Verification of indices** – using same datasets and software to re-compute the indices and compare the outcome with what exists.

Assessment of the Computer System and Software

This involved: Review Types of systems and software used in UBoS for data processing, computation of indices and storage as compared to the International recommended systems; review of types of systems and software used in other countries; review of computer system security protocols used in UBoS as compared to the UN recommended protocols; review whether software in use computes using appropriate recommended formulae. If not what the extent of the error is and what the remedy is. Review Data Management: Data capture, cleaning and processing processes: – measures to ensure quality, software used to ensure quality as compared to the internationally recommended; and verification of accuracy of indices – quality of inputs, quality of outputs.

Assessment the effectiveness of the dissemination and coordination mechanisms: This involves review of management correspondences. Audit also interviewed key users of the indices and providers of data.

12.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

An assessment of UBoS processes was conducted to ascertain its compliance to International best practice. The assessment was done by comparing IMF/ILO/World Bank and United Nations recommendations on the production of indices with the local practice at UBoS. It was established that UBoS complied with best practice in a number of areas:

- Compliance with weighting structure. The weights were allocated according to the expenditure value of each centre derived from the 2005/2006 UNHS. For expenditure weights, it was also established that the Bureau uses the plutocratic weights which is generally considered more appropriate particularly for consumer price indices which are constructed to be a general macroeconomic indicator.
- Conforming to international recommendations regarding new products. The Bureau includes new products during rebasing and reweighting exercises.
- Computation of the indices is done using the (modified) Laspeyres formula for computation of higher level indices and Jevons formula for computation of elementary aggregate indices as per IMF/World Bank guidelines.
- Price observation and collection. UBoS is in line with the international practice, which recommends that each item is price surveyed in at least three outlets in each urban area.
- CPI is released on time. Over the period 2009/10 to 2012/13, the Bureau released the CPI on time based on a pre-set timetable. In conformity with the general principle, the CPI is published and made public in a press conference where all key stakeholders are invited.

In spite of these achievements, the study has identified areas for enhancement.

SAMPLING METHODOLOGY

12.2.1 CONSUMER PRICE INDEX

Sample design and Selection

The practical guide to producing CPI (ILO, IMF, World Bank; Section 5.30) recommends a multi-stage stratified sampling design where stratification is done by regions; first stage units within each region are locations selected using PPS systematic sampling, business outlets are selected as second stage units within each selected location using either PPS or Judgmental/purposive – aiming at selecting reasonably popular outlets with shoppers representing the typical shopping pattern in the area for the types of products being priced.

Section 5.7 of the Practical Guide to Producing CPI also states that Probability sampling is used at first stage and non-probability (purposive) sampling at second, third & fourth stages of selection.

Interviews held with the UBoS CPI team revealed that the Bureau uses a multi-stage stratified sampling design as recommended by the international users' guide, with one exception, that is, locations were not selected using PPS systematic as international practice recommends, instead one town in each of the regions was deliberately/ purposively selected as 1st stage sampling unit considering town with largest population in a region.

The statistical regions may be too big to be represented by one town/location.

Management response

Currently, Uganda is demarcated into five CPI Statistical regions namely Kampala including neighbouring urban areas of Wakiso District, Central, Western, Eastern and Northern regions. Consumer prices used during the compilation of the National CPI are collected from seven urban centres. The seven centres were selected in such a way that each of the five regions is represented. The seven centres selected are those with the highest number of urban population within each region as per the results of the 2002 Population and Housing Census (Uganda CPI Manual 2012). Although the CPI Manual 2009 recommends use of probability proportional to size (PPS) followed by systematic sampling technique, this cannot in practice hold in a number of circumstances owing to small sample size. The ILO resolution, 2003[160] (paragraph 35) highlights the importance of using probabilistic sampling techniques as the most preferred. However, the same meeting observed that such techniques may be costly to implement and more importantly could result in the selection of products that are very difficult to price to constant quality. The best practical alternative is provided in paragraph 36), where non-probability methods are recommended. Indeed, this is what UBOS does while sampling outlets.

Audit response

The key concern is that locations/regional centres should have been selected using probability sampling. UBOS response is that this can also be done using purposive sampling and they referred to ILO Resolution 2003 clause 36. However, that clause does not refer to locations/regions/centres; it instead refers to outlets which the report agrees can be purposively selected as stipulated in the ILO Manual[161]. Moreover the reasons given for use of alternative non probability methods were not validated.

Conclusion

The first stage sampling for locations within regions was non-random and only one town was selected to represent a statistical region.

Recommendation

UBOS should use a random sampling process of selecting representative locations (both rural and urban). If most populated towns are to be preferred as indicated by UBOS, in each region it is better to have at least 2 towns instead of one town. This would mean the five statistical regions would have a minimum of 10 towns. Towns are not too many per region and can be listed by population size and representative towns chosen.

Sample size determination

The Practical Guide to Producing CPI Section 5.22 recommends that Sample size for both the rural and urban price collections should be sufficiently large to provide reliable and publishable indices for each sector. Sample size and the precision of the estimate of price change will depend on the homogeneity of the retail market. The more heterogeneous the retail market the bigger the sample required for a given level of precision (Practical Guide to Producing CPI Section 5.22). This implies the permissible error of the estimate for each region must not exceed 10%. Scientific determination of the sample size ensures an adequate size of the sample.

Through review of the Uganda CPI Users' manual, it was observed that Sample size computation was not described in the Manual. Interview with staff of the CPI section revealed that sample size was not scientifically determined as non-random sampling design was used. Instead cut off points were used where all units above the cut-off point are included in the sample.

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160 ILO, Resolution, 2003: The resolution concerning consumer price indices adopted by the Seventeenth International Conference of Labour Statisticians, 2003, States that:-

35 Probability sampling techniques are the preferred methods, in principle, as they permit sound statistical inference and control over the "representativity" of the sample. In addition, they permit estimation of sampling variation (errors). However, they may be costly to implement and can result in the selection of products that are very difficult to price to constant quality.

36 In cases where appropriate sampling frames are lacking and it is too costly to obtain them, samples of outlets and products have to be obtained by non-probability methods. Statisticians should use available information and apply their best judgement to ensure that representative samples are selected. The possibility of applying cut-off or detailed quota sampling strategy may be considered, especially where the sample size is small. A mixture of probability and non-probability sampling techniques may be used.

http://www.ilo.org/public/english/bureau/stat/download/res/cpi2.pdf

161 ILO 2003 (36) In cases where appropriate sampling frames are lacking and it is too costly to obtain them, sampling of outlets and products have to be obtained by non-probability methods.

The explanation given by CPI Team is that scientific formula could not be used because purposive sampling design was used.

Management response

Cut off points are used for products in urban centres based on UNHS benchmark data. UBoS is currently not covering rural price centres, which renders the probabilistic sample size difficult to implement. We shall try to use this method when rural price data collection commences.

Conclusion

Without scientific determination of the Sample size for both the rural and urban price collections, level of precision cannot be used to determine adequacy of sample size used for CPI. However, explanations need to be made to justify the size chosen using cut-off points in order to provide confidence that size is adequate.

Recommendation

Explanation that helps show justification for size should be given, for instance, why the cut-off point used was chosen, proportion of outlets or products that were included above cut-off point, etc. Going forward, scientific methods of sampling should be introduced so that sampling errors can be estimated. This will be in line with the UBOS User Manual recommendation.

Scope and coverage

According to the CPI practical guide to producing consumer price indices published by the United Nations **et al** (section 5.22), CPI should cover expenditures and prices throughout the country. Comprehensive coverage is necessary if regional CPIs are to be published and the sampling scheme should ensure that the index is representative of the whole country covering rural and urban centres. In addition, consideration must also be given to the inclusion of institutional households (Practical Guide to Producing CPI, page 10).

Through interviews with CPI section staff and the review of CPI users' manual, it was revealed that the current geographical coverage by UBOS is in only the urban centres of Kampala High Income, Kampala Low Income, Jinja, Mbale, Masaka, Mbarara, Gulu, and Arua. UBOS currently does not cover the prices for rural areas and institutional households.

The CPI Team said in an interview that limited resources are the reason for not covering rural areas and institutional households.

Consequently, given the rural and urban differences in prices, urban CPI may not adequately represent the rural areas. UBoS endeavoured to address this by using combined rural/urban weights.

Management response

UBOS has for some time now planned to include Rural Consumer Price Index (RCPI) in National CPI. This will be implemented when financial and human resources for this task become available. The current Urban CPI, however, fairly tracks the national price movements and thus remains a robust measure of national CPI. In addition, an empirical study is underway to establish the effect of including rural CPI in the measurement of national CPI. UBoS sponsored a Master of Statistics student for this purpose and the results from this research are still being reviewed. Findings for this study will shed more light on the extent of imprecision (or precision) of the Annual CPI currently being produced and published.

Audit response

As UBoS has reported that an empirical study is under way to establish the effect of including rural CPI in the measurement of national CPI since the current CPI only fairly tracks the national price movements, a follow up audit will be undertaken to establish the progress and results of the study and research.

Conclusion

The reliability of the indices produced is dependent on the adequate coverage of both rural and urban, which shows the complete picture of expenditure and price changes throughout the country; however, UBoS covers only urban centres.

Recommendations

UBoS should expedite the study and research to establish whether there are significant differences between rural and urban price changes to ascertain whether the inclusion of rural figures is material and thus adds value.

UBoS should also carry out a study to establish whether indeed the 7 urban centres provide adequate coverage for the CPI.

Representative basket of goods and services

According to the Practical guide to producing CPI page 45, section 5.39; When selecting a basket of goods, National Statistical offices should ensure that: (1) the specific brands/ varieties selected are available throughout the year and available for purchase during the life of the CPI basket; (2) specific brands/ varieties conforming to the item description must be easy to find by the price collectors; (3) estimates of price changes should be based on an adequate number of price quotations; and (4) items selected to represent distinct categories of household spending are well defined so that recorded price changes reflect only change in price and not changes in the products observed' (5) Seasonal products, for example, some foods, should be included.

Through review of UBOS CPI manual and interviews, audit noted that UBOS complies with these requirements with the exception that strongly seasonal goods are not captured. Strongly seasonal items were excluded because they could not meet the requirement of being readily available whenever price collectors go to collect their prices and also because their weights were not significant, i.e., below the cut-off point of 0.01%.

Management response

Strongly seasonal products are not included in the current CPI as the weights for these items were not significant at the time of rebasing. However, in the on-going National CPI rebasing, UBoS intends to include them using the appropriate methodologies, where price imputations for such products will be made during off-season.

Conclusion

Excluding strongly seasonal items in the computation of CPI estimates may lead to inaccuracy of the estimates if their contribution is significant.

Recommendation

Taking into consideration the time lag from the last rebasing period, it is commendable that inclusion of strongly seasonal products in the compilation of CPI is being considered. A follow up review will be undertaken to verify the progress.

12.2.2 SAMPLING FOR PRODUCER PRICE INDICES

Representativeness of the PPI

According to section 1.384 PPI manual, mechanisms need to be put in place to ensure the on-going integrity and representativeness of the index. That is, the price samples and weights need to be systematically reviewed and updated periodically. Random sampling procedures could be applied at all stages or a combination of cut off approach and random sampling so as to ensure some level of objectivity and representativeness though introduction of cut off may compromise the randomness and therefore raise questions about the use of sampling error in assessment of reliability (PPI Manual pg. 106 Sec 5.20). Where a fixed basket of goods is used, the basket of goods should be updated regularly and effects of substitution factored in the process of compiling PPI (PPI Manual Pg. 299 Sec 11.20).

UBoS selected a wide collection of representative products in August 2004 and the prices of these fixed sets of goods have been collected each month since then. Changes in the quality of items is adjusted using recommended procedure and the steps taken are well documented in the PPI detailed Methodology Manual. According to UBOS, delays in rebasing are attributed to lack of funds for carrying out the necessary surveys to get data for rebasing.

As a result, over time the PPI may become unrepresentative as items change quality, items disappear and new ones come into market. In addition PPI results may not be reliable measure of price changes.

Management response

The Bureau has planned and budgeted to have the rebasing done after getting data from the necessary surveys which data will be used as an input for the rebasing.

Although UBoS has the technical competence and capacity to rebase its indices within this time frame,

there are some necessary prerequisites to enable rebasing to be done and this includes carrying out the necessary surveys and censuses which have implications on the resource envelope.

Conclusion

UBoS does not continuously review price samples and weights to ensure the on-going integrity and representativeness of the index.

Recommendations

Although a rebasing is being done, it advisable that it is done every 5 years to ensure the representativeness of the basket is maintained. This implies UBoS should continuously engage other stakeholders like MoFPED to ensure that adequate funds are availed to implement the necessary surveys and censuses needed to get the required data for rebasing.

Major revisions or adjustments should be done during rebasing (an exercise which is currently on-going) or when there is closure of business or change in quality.

12.2.3 SAMPLING FOR CONSTRUCTION SECTOR INDICES-REPRESENTATIVENESS

Regional differences can have a major impact on costs, prices, size, style (single dwelling versus multiple dwelling constructions, low versus high density dwellings, etc.), construction materials and methods used. It is particularly important to identify any rural/urban differences. If an index is to be applied nationally there is a need to ensure that regional differences are represented in the price collection process and that the index is compiled with the appropriate weights reflecting these differences (OECD manual, page 26).

The sample for the CSI currently issued was developed on the basis of COBE 2001/02, which established the number of construction firms as 247. The latest COBE 2009/10 registered an increase in construction firms to 653. Given the increase the sample currently used may not be representative.

As a consequence, the indices produced may not be adequate to reflect the actual price movements in the constructions sector across the country.

Management response

At the moment this is true, because at the time of developing the CSI indices, the number of construction firms were centralized (based in Kampala) as per the UNABCEC list obtained at that time. Secondly, the major construction firms were based in Kampala district by the time of the development of the indices.

Recommendation

UBoS should consider using the COBE 2009/10 as a basis for sample determination in the compilation of CSIs.

ASSESSMENT OF INDEX METHODOLOGIES

12.2.4 CONSUMER PRICE INDEX METHODOLOGY ASSESSMENT

Uses of the Consumer Price Index

According to the CPI manual published by the United Nations page 1, there are three main uses of a CPI as indexation of wages, rents, contracts and social security payments; deflation of household consumption in the national accounts; as a general macroeconomic indicator, especially for inflation targeting and setting interest rates. Elements of a CPI are also often used in the calculation of purchasing power parities (PPPs) required in the International Comparison Program (ICP).

A review of the Uganda Consumer Price Index Users' Manual produced by UBOS revealed that CPI in Uganda is mainly used as a macroeconomic indicator, especially for inflation targeting and setting interest rates. Other uses such as indexation of wages, rent and social security are not taken into consideration.

It is not used for other purposes because the focus of the principal users (BoU and MoFPED) is on inflation targeting.

Consequently, workers lose out because a suitable index is not available for adjusting wages to match the prevailing cost of living.

Management response

There are other indices such as Retail Price

Index (RPI) which, when developed, can be used for wage indexation. There is a raging public debate in the international community as to which index can be used. UBOS is keeping a keen ear and eye on these developments before a decision can be made on how to move forward. In the meantime, efforts are being made to expand the coverage of National CPI by including products/items that could address some of these issues in the on-going rebasing exercise. In addition, the user needs assessment suggestion will be undertaken since we produce demand driven statistics.

Conclusion

CPI produced by UBOS is not suitable for indexation of wages, rents, contracts and social security payments, as well as for the deflation of household consumption in the national accounts since its focus is on inflation targeting.

Recommendations

UBoS should expand the scope of the CPI and produce indices for other uses, especially indexation of wages, rents, contracts and social security payments.

UBoS should carry out a needs assessment to identify the indices required by the various stakeholders.

Geographical coverage

CPI should cover all the expenditures made within the domestic territory of the country, including the non-business expenditure made by foreign visitors. It is appropriate where the CPI is used for national inflation analysis and inflation targeting. (CPI manual, page 9)

It was established from the review of the CPI UBoS manual audit and interviews that UBOS uses the domestic concept of CPI. Domestic coverage means that the CPI should cover all the expenditure made within the domestic territory of the country, including the non-business expenditure made by foreign visitors. It is appropriate where the CPI is used for national inflation analysis and inflation targeting. The current practice by UBoS to include foreign visitors in the measurement of CPI without discriminating who is spending in the hotels and restaurants though useful is not robust. It may unintentionally lead to omission of expenditures made by foreign visitors in the computation of CPI. Foreign visitors will generally have very different expenditure patterns from those of national residents (e.g. they will spend more on hotels and restaurants) and to omit them could introduce serious distortions into a CPI aiming to follow the domestic concept, especially if the main purpose of the index is to measure the inflationary trends in the economy as is the case in Uganda. For this reason non-business expenditures made by foreign visitors should be deliberately targeted.

Management response

Regarding the treatment of non-business expenditure made by foreign visitors, the current practice is to include them in CPI measurement without discriminating who is spending in hotels and restaurants. However, after rebasing we plan to account for this separately within domestic concept framework- now that the Tourism Expenditure and Motivation Survey baseline data is available.

Through the PNSD project, the Ministry of Tourism, Wildlife and Heritage with UBOS have been sensitising hotel owners about the use of statistics and their importance. Going forward, we shall put more emphasis on the indices during future meetings.

Recommendation

UBoS should continuously sensitise the hotel and resturant owners on the importance of indices so as to encourage them collect and share the necessary data with UBoS to be used in compilation of the necessary indices.

Institutional households

Institutional households refer to people living permanently in an institution or who may be expected to reside in an institution for a very long time, such as:

- Members of religious orders living in monasteries or convents.
- Long‐term patients in hospitals.
- Prisoners serving a long sentence.
- The elderly living in retirement homes.

- Military personnel living in barracks.
- Temporary construction workers living in special quarters.

Such people are treated as belonging to an institutional household when they have little or no autonomy of action or decision in economic matters.

Neither the CPI Manual nor the ILO Resolution is prescriptive about whether a CPI should cover the expenditure of people living in institutional households. Many countries exclude such expenditure from their CPI because of the difficulty of obtaining reliable expenditure information, or because the expenditure associated with such households is unlikely to be very significant in comparison with that of non‑institutional households.

Through the review of the UBoS manual, it was established that UBoS does not consider institutional households because the data used to generate weights from the Uganda National Household Survey (UNHS), the benchmark data source, is collected from private households only.

Failure to produce the index on household expenditure may result in producing the indices that do not show the true picture on the expenditure patterns between the institutional and non‑institutional households.

Management Response

These are not included in the CPI compilation because the data used to generate weights from the Uganda National Household Surveys (UNHS), the major benchmark data source, is collected from private households only. It is a reasonable suggestion to start thinking on how institutional households could be incorporated in future CPI.

Recommendation

There is need for UBoS to conduct a study to establish whether inclusion of institutional households could have a significant impact on the CPI.

Product classification

The 2003 ILO Resolution on CPIs requires that national CPI classifications should be reconcilable with the Classification of Individual Consumption by Purpose (COICOP), at least at its higher aggregation levels, with a clear advantage for integration of data-sets and enhanced analytical capabilities and International Comparison. In addition classification makes the process of calculating CPI expenditure weights a more efficient and transparent process and can improve accuracy.

UBoS uses the Uganda Country Product Classification System making international comparisons of inflation difficult.

Management response

Uganda's Product Classification System complies with COICOP. It is at reporting level that UBoS groups the products to satisfy the national requirements, as agreed upon with key stakeholders during previous rebasing exercise. It should be noted that the same CPI is currently used for EAC and COMESA harmonised CPIs that are COICOP compliant. This notwithstanding, UBOS is rebasing its CPI and a decision has been reached to publish the National CPI based on COICOP.

Recommendation

Now that preparations for the EAC Monetary Union are underway, it is important that UBoS expedites the adoption of COICOP.

Weights

The 2003 ILO Resolution on CPIs states that the weights follow directly from the scope of the index as well as from the choice between the "acquisition", "use" or "payment" and provides for the two basic sources of information: Household Budget Surveys and National Accounts. It also provides for the possible use of price-updating, where the weight reference period falls significantly behind the price reference period, and for weights to be reviewed at least every five years.

Whereas the ILO Resolution states that consumer' expenditure patterns in the weighting reference period should be no more than five years old and in reality the weights of the CPI need to be updated with a frequency sufficient to ensure that there is no significant bias from product substitution.

It was established that the weight reference period for the Ugandan CPI is on average 8 years which is in contravention of the international guidelines. The current CPI weighting reference period is 2005/06 which was updated from the previous weighting reference period of 1997/98. Interviews with UBoS staff revealed that rebasing of the 2005/06 weight reference period is presently underway.

Management response

We take note of the proposal to update the weights periodically. However, it may not be plausible to conduct annual reviews of weights attached to sub-indices given massive data requirements that would need a lot of resources, both financial and human. Annual updates would require conducting annual mini-household budget surveys and other specialised studies for weights adjustments.

Conclusion

Eight years is quite a long time for rebasing, given rapid changes in consumption patterns.

Recommendation

There is need for UBOS to update weights frequently in periods of less or equal to five years. In addition, reviews should be carried out on the weights attached to sub-indices and other major components of the indices whenever new UNHS data is available.

Replacements

If an outlet goes out of business or refuses to participate it should be replaced with the same sort of outlet (for example, a market stall should be replaced with a market stall, a single shop with a single shop) in the same location. Probability sampling and the sampling frame that was used to select the original outlet should be revisited and a replacement outlet selected from the same stratum.

Regardless of how the replacement is found, the sampled items of the original outlets should be assigned to the replacement outlet for price observation.

The current practice is that UBOS replaces outlets that go out of business or refuse to participate but does not specify the probability sampling and the sampling frame that is to be used when replacing outlets.

Management comments

The selection of the closed outlet is entirely purposive for reasons of inadequate sampling frame that covers both outlets and products as determined from UNHS data. Thus, we are unable to show the probabilistic sampling techniques since we do not employ them in outlet replacements.

Recommendation

As recommended earlier, there is need for UBoS to adopt the probability sampling methods which provide more objective, accurate and reliable information.

User consultations

Understanding users' needs is essential in ensuring the relevance of the consumer price index and its use. It is important therefore that mechanisms are put in place to obtain the users views on regular basis for effective stakeholder engagement in the planning process and to provide users with advice on the strengths and weaknesses of using different indices for different purposes. (CPI manual page 226)

The 2003 ILO resolution on CPI places a responsibility on the National Statistical Institutes to consult users. Engaging users should be an integral part of the statistical process. When the CPI work programme is under review and developments in CPI outputs and methodologies are being contemplated, users' needs should be considered.

Among the stakeholders that should be consulted are: Parliament; Government; workers; Central Bank, Ministry of Finance, Planning & Economic Development; Ministry of Public Service, Ministry of Labour, National Planning Authority, Workers Associations, Academic institutions, among others.

Through the review of Social Economic Statistics Technical Committee (SESTC) meeting minutes, Inter Agency Committee meetings bringing together the line MDAs and minutes of other UBoS meetings, it was established that matters discussed were not consultative on production of indices and identification of need of users. Meetings by UBoS were not comprehensive in identification of the user needs, quite a number of indices which are key in signalling the future economic events were not being produced by the bureau; for example Employment Index and labour statistics.

Management response

It is important to note that every time the National CPI is being rebased, a Technical Committee comprising of expert members from Bank of Uganda, Ministry of Finance, Planning and Economic Development, Economic Policy Research Centre (EPRC), Makerere University School of Statistics and Planning and UBOS is instituted. This committee makes technical recommendations from which the Advisory Committee of Senior officials from the above institutions and others under Plan for National Statistics Development (PNSD) bases its decision on methodology, compilation regulations, publication and dissemination of CPI, in particular. This was the practice both during the last and the current rebasing exercise. Furthermore, there are regular meetings, now monthly, under Social Economic Statistics Technical Committee (SESTC) comprising of Bank of Uganda, MoFPED and UBoS that review these methodologies.

Auditor's response

UBoS response is not in line with the finding. The consultation mentioned above is only limited to a few institutions under SESTC, which do not include other departments like Parliament; Government; workers, Ministry of Public Service, Ministry of Labour, National Planning Authority and Workers Associations. Besides, a review of their minutes revealed that the consultations only concentrated on methodology and routine issues like regulations, publication and dissemination of CPI. There is no evidence that needs assessment was done during these meetings.

Conclusion

Understanding users' needs is essential in ensuring the relevance of the consumer price index and is one of the key processes in the production of the indices used for national planning. However, UBoS was not undertaking this exercise effectively, leading to users' dissatisfaction.

Recommendations

UBoS should put in place mechanisms to obtain users views on regular basis for effective stakeholder engagement in the planning process and to provide users with advice on the strengths and weaknesses of using different indices for different purposes.

UBoS should produce Employment index and labour statistics which are critical in predicting of future economic events and gauging economic activities.

12.2.5 CONSTRUCTION SECTOR INDEX METHODOLOGY ASSESSMENT

Types of Indices

The OECD manual by the Statistics Office of the European Community provides for three main types of construction price indices that can be compiled. Input Price Indices, Output Price Indices, and Seller's Price Indices.

Input Price Indices measure changes in the price of inputs to the construction process by monitoring separately the cost of each factor. This generally entails the compilation of a weighted index of the costs of wages and materials. Input price indices only provide a reflection of changes in the prices of construction inputs.

Output Indices should include prices paid by the contractor for all factors contributing to the construction activity paid by the client. These should include those listed previously for inclusion in input indices, plus changes in productivity, profits and should not include elements not normally paid by the client, such as the price of land and architects fees.

Sellers Indices should include all the elements included in input and output price indices plus the price of land, and other elements included in the total sales price of the completed construction paid by the purchaser or final owner.

A review of the handbook for Construction Sector Indices for Uganda generated by the Uganda Bureau of Statistics and interviews with the CSI team revealed that UBoS compiles an input price index. The input price index only provides a reflection of changes in the prices of construction inputs, specifically: material costs, equipment hire and labour costs. It does not reflect the whole range of influences that impact on market prices such as changes in productivity, profit, and trade margins of the construction contractor, and changes in actual market conditions.

As a result, the CSI cannot provide information on price movements for finished construction work. The index produced is a production cost rather than a production price index and therefore the real trend of building costs may differ considerably from the trend compiled solely on the basis of wages, equipment hire, and material costs.

Management Response

The report suggests scope of expansion of the indices to include: Land preparations, overheads, profits and trade margins. The Bureau considers that there might not be stable data sources for such information as data is to be collected from the same sources over and over again.

Wide consultations were undertaken with key stakeholders including UNRA-RAFU at that time; Ministry of Works; Ministry of Water and Environment, Uganda National Housing and Construction Corporation, and it was agreed in principal that the Bureau should produce an input index.

The report recommends that wages should be directly obtained from the employees or employee associations not construction firms. The Bureau considers this not practical in Uganda considering the sensitivity of personal remuneration paid to each employee by individual firms hence not possible to obtain information from an individual. Currently in Uganda, there is no employee association that is strong enough for collective bargaining where such employees subscribe to.

Audit response

The issue here is that most factors which influence movements in construction prices should be included in the input index rather than including only materials and labour costs; and equipment hire to make the index robust. As a minimum, the input index should also include: transport costs, energy costs, and other costs. All this data is available from construction firms and is used as a basis for billing their clients. Likewise, construction firms and/or their associations have data on: land preparation costs, overheads, profits and trade margins.

Although UBoS indicates that it is not practical to obtain data on wages from individuals, the data they currently on labour costs from the 17 or so construction firms can also be corroborated with National Social Security Fund and Uganda Revenue Authority since they have data on employee wages. This would bolster the robustness of the index and limit the possibility of error that may result from inflated labour costs.

Recommendations

UBoS should expand the scope of the present input price index to incorporate: materials, labour, equipment hire, land preparation costs, bathroom/kitchen fittings, overheads, profits, and trade margins.

The CSI-Input Price Index currently produced by UBoS should not be used to provide information on price movements for finished construction work as it generally does not reflect the whole range of influences that impact on market prices.

UBoS should corroborate the data it currently obtains on labour costs from the 17 or so construction firms with National Social Security Fund and Uganda Revenue Authority so as to limit the possibility of error that may result from inflated labour costs.

Index review

The OECD manual recommends review of weights for Construction Price Indices at least every five to ten years and the frequency of the revisions is largely dependent on the pace of structural and technological change taking place in the construction industry in any particular country.

Interviews with the CSI team revealed that weights for the Construction Price indices have never been reviewed since its inception in 2006/2007.

Consequently, weights for Construction Price Indices may be out-dated leading to an index which does not reflect the true changes in the construction cost.

Management response

Rebasing of all the indices was planned and budgeted to be done in the financial year (2013/14) as already planned and budgeted. What was being awaited was the reconciliation of the data from the Supply and Use Tables (SUT) and from UBI 2009/10 survey results.

Conclusion

As time goes by, indices lose their relevance as building practices and technology diverge more and more from those prevailing in the base period (the period to which the weights relate), yet those weights continue to be used. This necessitates review of the weights at least every five years.

Recommendation

In future, the rebasing exercise should be undertaken every five years due to the high pace of structural and technological changes taking place in the construction industry in Uganda.

Dissemination

a) Late Dissemination

According to the OECD manual, CSI should be publically available to all at the same time, including details of pre-release access and how the content of the press notice is determined. Publication should be timely and follow a fixed timetable which is determined by operational requirements. For this reason, it is good practice to set the PPI production

timetable far in advance to help forward planning and facilitate the release of forward publication dates many months in advance which is helpful to users and increases transparency and trust.

In conformity with international practice, UBoS releases the CSI to all users at the same time, in a press conference and sets the CSI production timetable in advance.

It was, however, observed from a review of the CSI price releases that over the period 2009/10 to 2012/13, the Bureau released CSI after the end of the quarter which was past the scheduled dates on the release calendar.

The delays ranged from 6 days to 39 days as shown in the table below 86.

Table 86: Delays in Release of PPI/CSI.

Issue	Quarter	Expected Release Date	Actual Release Date	Delay (days)
17	3rdqtr 2009	24/11/2009	10/12/2009	16 days
18	4thqtr 2009	23/02/2010	04/03/2010	8 days
22	4thqtr 2010	29/10/2010	07/12/2010	39 days
23	Issue Nov/Dec 2010	01/02/2011	08/02/2011	7 days
24	Issue Jan/Feb 2011	22/03/2011	19/04/2011	28 days
25	Issue Mar/April 2011	14/06/2011	21/06/2011	7 days
26	Issue May/June 2011	23/08/2011	02/09/2011	10 days
27	Issue Aug/Sept 2011	11/11/2011	17/11/2011	6 days
29	Issue Jan/April 2012	25/04/2012	29/05/2012	34 days
31	Issue July/Aug 2012	24/10/2012	30/10/2012	6 days
32	Issue Sept/Dec 2012	20/02/2013	13/03/2013	21 days

Source: OAG analysis of release calendar

The CSI team attributed this to the delay in obtaining responses from the data providers, particularly construction firms.

Consequently, users such as UNRA, KCCA, MOWT experience challenges in making payments to contractors, since the CSI needed is not available in time.

Management response

UBoS has the technical capacity to release CSI and PPI on time. However, due to avoidable circumstances such as late releases of funds for field activities and delay in responses from some key respondents. This in effects makes us unable to follow the pre-set time table.

Conclusion

Delay in publication of the CSI undermines confidence placed on the indices by users and thus reduces its reliability.

Recommendation

CSI should always be released on time as per the pre-set timetable.

Frequency of compilation/publication

Relatedly, the OECD manual provides that CPIs can be compiled and published either monthly or quarterly.

As noted above the Bureau compiles quarterly Construction Sector Indices (CSI) although the release contains monthly data.

Consequently, the monthly data published in the quarterly index are untimely since the index is published at the end of the quarter.

Management response

Although the Bureau has the technical capacity to produce the index on a monthly basis, the resource envelope is small to enable us collect the data on a monthly basis.

Conclusion

Since the CSI is used more often by stakeholders like UNRA and KCCA for payments to contractors, delay in its publishing distorts the payment processes as there are multiple variations of prices due to changes. The desirable situation is for the Construction Sector Index to be published on a monthly basis. UBoS at the moment publishes the Construction Sector Index on a quarterly basis due to resource constraints.

Recommendation

UBoS should strive towards publishing the Construction Sector Index on a monthly basis through efficient use of funds. Liaison with MoFPED is recommended to provide adequate funding.

12.2.6 PRODUCER PRICE INDEX METHODOLOGY ASSESSMENT

Population coverage

According to the PPI manual published by the United Nations, although the scope of a PPI may include all domestic goods- and service-producing establishments, traditionally the PPI has been compiled as a measure of price change for the goods producing sectors of the domestic economy. These include agriculture, forestry, and fishing; mining; manufacturing; and public utilities.

According to the Monograph for producing Price Index for Manufacturing produced by UBOS, UBOS is currently calculating the Output PPIs for the Manufacturing sector (PPI-M). An output PPI-M measures the rate of change in the prices of products sold as they leave the producer.

The PPI compiled by UBOS is limited in scope. It is suitable for deflation of output or sales data for the compilation of production volumes and the deflation of capital expenditure and inventory data in only the manufacturing sector.

Management response

The Bureau already has plans to develop and include other sectors such as Agriculture, Mining and Quarrying, Electricity and water utilities. In addition, plans are under way to also develop and include the Oil and Gas sector as soon as Oil and Gas production takes off.

Conclusion

The PPI produced by the Bureau is limited in use to only the manufacturing sector, leaving out other vital sectors like mining, agriculture.

Recommendation

In the process of developing the other sectors, it is advisable to expand the scope of the PPI to include all domestic goods and service producing establishments.

Export and Import Coverage

According to the PPI manual produced by the United Nations, on a conceptual basis, the inclusion of exports and exclusion of imports conforms to the measurement of output price change consistent with index use for the purpose of a GDP deflation. In contrast, the inclusion of imports and the exclusion of exports is consistent with demand-based index use. Both formulations are highly meaningful for a variety of important data users. Resources permitting, both import and export price data could be incorporated into different PPI aggregations to form different families of indices. However, the PPI concept is generally associated with output measurement. This is inclusive of exports and exclusive of imports.

According to the Monograph for producing Price Index for Manufacturing produced by UBOS, the PPI-M compiled by UBOS is for both goods produced for the local market and those produced for export. This PPI-M initially covers the 'formal' Manufacturing sector.

According to the PPI manual produced by the United Nations, on a conceptual basis, the inclusion of exports and exclusion of imports conforms to the measurement of output price change consistent with index use for the purpose of a GDP deflation.

The PPI compiled by UBOS is not consistent with the demand-based index use which requires inclusion of imports and the exclusion of exports in the PPI. It is however, consistent with index use for the purpose of a GDP deflation which requires inclusion of exports and exclusion of imports.

Management response

According to the IMF manual, Producer Price Indices are broadly categorized as either outputs or inputs to the production processes. Input Producer Price Index measures the rate of change in the prices of the inputs/ raw materials purchased by the producer and are categorized as PPI for local or imported raw materials. The output PPIs indicate changes in the prices manufacturers charge for goods as they leave the factory gate. An output PPI for goods and services can be a PPI for goods and services produced for the local Market (PPI for Local Market) or Export, (PPI for Exports).The current PPI is an output Index and therefore prices of outputs as they leave the firm gate are used. Export firm gate price data is used because we compute PPI for exports. In computing PPI for exports, the Bureau uses prices at the firm gate but for goods intended for export (Export firm gate). If PPI was an input index, import price data for inputs used in the firm would have been used. However, the current PPI does not use input data.

Conclusion

The PPI compiled by UBOS conforms to the measurement of output price change consistent with index use for the purpose of a GDP deflation.

Recommendation

Resources permitting, both import and export price data could be incorporated into different PPI aggregations to form different families of indices.

12.2.7 PRICE INDEX COMPUTING SYSTEMS

There were efforts by UBOS to develop and deploy computing systems for the production of consumer, producer and construction sector indices in the Directorates of Business and Industrial Statistics and Macro Economic Statistics.

The computing system for production of the Producer Price Index and the Construction Sector Indices has been evolving from a manual system before the year 2000 to an automated system. The current version for computing PPI and CSI is an MS Excel running with an MS Access database in the backend. A more robust integrated and networked index production system can be procured with capabilities for both backend database management and frontend accessibility for both user manipulations and dissemination of indices.

The CPI production system used by the Directorate of Macro Economic Statistics, in its current state, does not meet the standard IT requirements. It needs, at a minimum, to be centrally managed on the UBOS servers, a well-developed database management and CPI processing system with some processes automated such as: price data collection using PDAs and controlled imputation processes. Overall, the general and application control environment should be improved to enhance the reliability of the indices produced by the systems.

Other matters impacting on the reliability and integrity of the systems were as follows:

12.2.8 IT SECURITY MANAGEMENT

The Uganda Bureau of Statistics (UBOS) Act, 1998 Section 7(1) (a) (GoU, 1998), requires the Board to formulate policies to guide and control the operations of the Bureau. ISO 27001, the International Standardization Organization for information security requires organizations to implement security controls to accomplish their objectives through establishing an IT security policy. Formalizing operational practices and procedures with sufficient detail helps to eliminate security lapses and oversights, gives new personnel sufficiently detailed instructions, and provides a quality assurance function to help ensure that operations are performed effectively and efficiently.

ISO/IEC 27001 (International Organization for Standardization/International Electro-technical Commission) also requires that management systematically examines the organization's information security risks, taking account of the threats, vulnerabilities, and impacts.

The audit sought to establish whether there was a formal process to identify network, application and operating system (OS) based vulnerabilities for the production of Consumer, Construction sector and Production price indices (CPI/CSI/PPI). It was established that there was no formal risk analysis conducted by UBOS to assist management in identifying security threats.

In addition UBOS did not have an IT security policy to provide control over its information systems. Staff interviewed explained that UBOS was in the process of formulating the policy; no working draft policy was availed to confirm this, implying that the available information security practices were neither documented nor periodically reviewed.

There was also no security manager to handle security management at the organizational level. An officer had been assigned the responsibility of managing the security of the PPI/CSI computer system but not for the CPI System.

In the absence of a risk management framework and security policy, the information systems at UBOS are exposed to various security threats, such as: unauthorized access to the price databases for production of indices which could compromise system integrity.

Recommendation

UBoS should put in place a security policy to guide the control and management of the information system assets and resources. Such a policy should clearly articulate the roles, responsibilities, management commitment, and coordination among the key players involved in the price indices production process, to ensure their reliability. In addition a risk management framework should be introduced within the organization to periodically identify and control the threats to the information systems.

Review of security Logs

There is a need to regularly review security audit logs, investigate cases of security breaches and recommend action. Records of system activity both by system and application processes and by user activity of systems and applications should also be maintained.

It was observed that there was no process in place to review security audit logs in a timely and consistent manner.

Recommendation

System Level Supervision, Transaction Monitoring and Analysis of System Logs require serious attention for CPI and an improvement for the PPI/CSI.

Considering that in all cases the systems in use have been developed in-house, with the developers being some of the key users, there is need to have clear system level supervision and approval roles.

Business Continuity

An organization should have proper business continuity procedures to facilitate the continuity of business operations in the event of disasters and system failure. Such procedures provide for the identification and assessment of critical business systems and development of a disaster recovery plan which should be documented and communicated to all staff.

It was observed that UBoS did not have documented business continuity procedures to mitigate the risks of loss of vital data in the event of system failure. There was no entity-wide plan to allow for critical systems, such as: CPI and PPI/CSI to recover from disasters. In addition, back-up of price data was undertaken without documented guidelines and was being done individually for CPI. Generally, controls over back-up of data were non-existent.

In the absence of business continuity procedures, UBoS may, in times of disasters, not be able to fulfil its mandate of producing reliable and timely statistical information.

Recommendation

UBoS should put in place a comprehensive Business Continuity Plan. The plan should be regularly tested to ensure that critical Bureau operations are maintained in the event of catastrophic events. There should also be regular audits conducted on the price data back-ups to account for all back-ups as well as for verification of the integrity of price data.

General Management response

The CPI computing system, currently used in the Macroeconomic Statistics Directorate, meets the minimum IT requirements. The data entry, processing and generation of results is automated and any piece of data input can be traced from its raw form as collected from the field. The additional requirements being recommended such as back-up facility, linking to the UBOS server and use of PDAs would significantly improve compliance with the above average requirements. We thus welcome these recommendations.

However, controlled imputation processes are not feasible due to the difference in the characteristics of products being monitored, which necessitates being adjusted every time one is analysing the CPI. A lot of professional judgement with sufficient knowledge of economic conditions, which a price Statistician employs, is required - and this cannot be achieved by merely depending on controlled imputation processes only.

We take the recommendation of putting a security policy in place to guide the control and management of the information system assets and resources. The Directorate of Information Technology has drafted this policy following the policy guidelines from UBoS Management and the Board.

OVERALL AUDIT CONCLUSION

UBoS has made significant strides in the periodic production of indices over the years. Except for the areas of non-compliance discussed above, the practices followed by UBoS in the production of indices are to a large extent in line with international practice. The shortcomings identified in this audit, like the delays in rebasing, use of non-probabilistic methods, limited representativeness of samples and non-comprehensiveness of the inputs in the production of Construction Sector Indices need to be addressed to further enhance the reliability, accuracy and comprehensiveness of the indices.

GLOSSARY OF TERMS

Adoption	A legal process where a person(s) take into their care child/children who are not born to them. The child-parent relationship is formalised through the legal process. It is a permanent relationship where the biological parents if known renounce their natural rights over the child.
Agricultural inputs	This refers to all substances and materials used in the production or handling of Agricultural products.
Agro- processing	Processing of agricultural inputs and intermediate products from crops, livestock, fish, poultry and bees.
Albertine Graben	The Albertine Graben is situated in the Northern part of the left arm of the East African Rift valley. It runs from south-western Uganda to North-western Uganda and is covered by water bodies (rivers and lakes). It is also rich in natural resources (minerals, petroleum, fauna and flora), has the largest number of protected areas in Uganda, including game reserves, Ramsar sites and a large number of endemic species. It is also endowed with oil and gas resources with large potential for commercial development.
An index number	An index number is defined as a number adapted by its variation to indicate the increase or decrease of a magnitude not susceptible of accurate measurement. It is used to measure the change in some quantity which we cannot observe directly.
Basic headings	Basic headings are the smallest sets of goods or services for which index numbers are compiled. They are the components used to build up composite indices.
Basket of goods.	The basket is the list of goods and services (together with their weights) used as components in compiling a composite index.
Beneficiaries	Individuals, companies and other qualifying entities that have received loans under ACF.
Business Register	A Business Register (BR) is a record of all active business establishments in the country. Essentially, it contains structural information about each business, including (but not limited to) name, economic activity, location and employment by sex.
Care Order	A care order made under Part V of the children's ACT and includes an interim care order.
Chief Magistrates Court	Means a magistrate's court presided over by a chief magistrate.
Child	Any person below the age of 18years.
Committed funds	Loan funds reserved by BoU for eligible beneficiaries
Composite indices	Composite indices are indices that are made up of several component indices weighted together.
Construction Sector Indices	The construction sector price indices are numbers that show the relative level of prices in construction sector relative to the base period. They measure the cost of given sets (baskets) of construction goods and services, relative to their cost in the base period.

Consumer Price Index	CPI is defined more precisely as a measure of the changing cost, over time, of purchasing the base period fixed basket of goods and services.
Credit appraisal	Due diligence carried out by banks on loan applicants to ascertain eligible borrowers.
Custodian:	A person in whose care a child is physically placed.
Data producers	Individual units, enterprises or organisations that generate data for either personal, administrative, statistical or development purposes. Data producers include: the National Statistics Office, Statistics units in Government MDAs, private sector organisations, NGOs, Civil Society Organisations and Training and Research Institutions.
Data providers	Suppliers of the data produced. They include: MDAs, establishments or institutions in the public and private sectors, households, and various community groups.
Data users	Recipients of the data produced. They include: Government MDAs, Regulatory Bodies, Private Sector Companies, NGOs, Researchers and Development Partners, International and Regional Organisations, Service institutions and the media.
Delinquent Loans	Overdue loans in default of the repayment terms of the agreement.
Domestic waste	This refers to waste generated from residences. It includes paper, used bottles, old clothes and furniture, grass cuttings, etc.
Drilling waste	In this audit, drilling waste refers to waste generated as a result of drilling activities. It includes fluids / solid retrieved from the sub-surface during drilling operations, as well as the water/ chemicals used in the drilling process.
Eligible borrowers	Individuals, companies and other qualifying entities for the ACF loan.
Foster parent	A person not being the biological mother, father or relative of the child who assumes parental responsibility of the child by way of a care order.
GDP	The total value of goods produced in a country
Gender	This is the social and cultural construct of roles, responsibilities, attributes, opportunities, privileges, status, access to and control over resources and benefits between women and men, boys and girls in a given society.
Gender-blind policies, plans or budgets	These are policies, plans or budgets that ignore social differences between men and women. They assume men and women have the same needs and interests.
Gender-specific policies, plans or budgets	These are policies, plans or budgets that recognize gender differences and target either men or women.
Gender Issue	This is a point of gender inequality that is undesirable and requires intervention. It results from some form of gender discrimination or oppression. A Gender issue arises when there is inequality, inequity or differentiated treatment of an individual or a group of people purely on the basis of social expectations and attributes.

Gender mainstreaming	This is a conscious approach of an organisation to take into account gender equality concerns in all policy, programme, administrative and financial activities as well as organisational structures and procedures. It's based on a political decision to work towards and finally achieve the goal of gender equality within the organisation thus contributing towards gender equality in the respective society. It involves applying a variety of measures, providing resources (financial, human, time, information) and ensuring a process of learning and transformation
Guardian	A person having parental responsibility for a child.
Hazardous waste	This is waste that poses a risk to human health or the environment and needs to be handled and disposed of carefully. Examples include waste containing radio-active materials, heavy metals, used oil, used chemicals, etc.
Inflation	Inflation is the persistent rise in the general level of prices for goods and services within the economy, over a period of time. When the general price level rises, each unit of currency buys fewer goods and services.
Lead agency	A Ministry, Department, or Agency (MDA) of Government, local authority or Private Sector, and other key users or providers of statistics.
Legal guardianship:	This is an order granted by the High Court allowing usually non-citizens to have custody of Ugandan children and allow them to emigrate with them to allow them to immigrate with them to their countries for purposes of Adoption in their countries.
Micro deposit institutions	Are microfinance Institutions which receive members deposits.
Microfinance Institutions	This is a combination of micro finance deposit institutions, cooperative societies and Savings and Credit cooperative organizations.
National Statistical System	All agencies in Uganda, whether Government or not, responsible for gathering statistical data directly through surveys or through administrative action.
Off farm	Refers to development of water sources and transmission (bulk transfer) through closed conduits or canals to farmgates.
Official Statistics	Statistics produced by an agency in the National Statistical System, which the Head of the National Statistical Office designates or certifies as official, according to Section 4(1) (b) of the UBOS ACT (1998).
On farm	Refers to development of primary distribution and tertiary networks for irrigation systems and other on-farm irrigation infrastructure and works and water use management.
Parent	A biological mother or father or adoptive mother of a child.
Parental Responsibility	All rights, duties, powers, responsibilities and authority which by law a parent of a child has in relation to the child.
PFIs	Financial institutions and MDIs regulated by BoU and UDBL that are eligible to participate in the scheme.
Population	The totality of all persons or other units of interest in a study or investigation under consideration at a given time in a given area.
Portfolio at Risk	Loans in arrears past 90 days
Price Relative	This term is used to describe a price index referring to a single product. It may be calculated by dividing the price in the current period by the price in the base period and multiplying by 100.
Producer Price Indices	The PPI is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services. The prices in this case are basic prices, exclusive of taxes (i.e Factory Gate Prices).

Promissory Note	The promissory note is a promise (guarantee) by the PFI to repay the GoU contribution for as per the MoU terms.
Uganda Business Inquiry (UBI).	This is a survey aimed at collecting data from all economic activities undertaken in the country necessary for the computation of main economic indicators such as value added (VA) and Gross output (GO). It is normally referred to as a census because of the large sample.
Vulnerable children	These are orphans, needy children.
Waste	"Waste" includes any matter prescribed to be waste by the National Environment Act, Chapter 153, and any radioactive matter, whether liquid, solid, gaseous or radioactive which is discharged, emitted or deposited into the environment in such volume, composition or manner as to cause an alteration of the environment.
Waste Consolidation	This refers to the containment of waste within a designated area intended as a temporary measure pending treatment and final disposal.
Waste disposal	This refers to the act of permanently getting rid of waste either by releasing it back into the environment, or permanently containing it in a designated area, with no plan of future treatment.
Waste management	This refers to management of waste from the cradle (point of generation) to the grave (final disposal). It involves collection, handling, transportation, storage treatment and disposal.
Waste treatment	This refers to the activities required to minimize the ability of waste to impact on/ alter/pollute the environment.
Water facilities	Refers to constructed safe water sources such as dams, Valley tanks, Water supply systems.
Water for production (WfP)	Refers to development and utilisation of water resources for productive use in crop irrigation, livestock, aquaculture, rural industries and other commercial uses.
Water User Committees	Refers to a set of individuals or households to form a water user group and collectively plan and manage a point source water supply system in their area.
Weights	Weight is used to describe the relative important of an item to other goods and services in the basket.
Welfare Report	A report described in section 20 of the children's act.
Wholesale lending	This is a practice of lending large sums of money to a financial institution at an interest rate that is lower than the market rate with a view of lending it to smaller borrowers at a higher interest rate.
Sample	A subset of a population made up of one or more sampling units. It is a selected portion of a population drawn to provide information on the population as a whole or units of interest.
Sampling Frame	A list or register that delimits, identifies and allows access to the elements of the target population.
Scientific/Probability Sampling	In the context of sampling, scientific sampling refers to the sampling process which is governed by a chance mechanism and in which each unit in the population from which the sample is drawn has a known probability of selection. This excludes purposive, haphazard cut-off sampling methods in which choice of sampling units depend on judgment of the sampler.

Security Policy	A security policy is a formal statement of the rules by which people who are given access to an organization's technology and information assets must abide (Mali, p. 17). A computer security policy may also be defined as a documentation of computer security decisions (A.Roback, October 1995). Therefore, security policy refers here to the statements made by organizations, corporations or agencies to establish the overall guiding principles on information access and safeguards.
Software activities	These refer to support activities such as community mobilisation and sensitisation, capacity building and guidance to communities and their committees on operation and maintenance of water and sanitation construction.
Statistics	A branch of mathematics that deals with the collection, analysis, interpretation or explanation, and presentation of data.

THE REPUBLIC OF UGANDA

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FOR GOD AND MY COUNTRY

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