

Increasing Unspent Balances Returned to Consolidated Fund in Uganda's Local Governments: *A Factor Of Local Government Accountability*

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Abstract

Local government accountability should not be viewed in isolation, but as part of the broader issue of governance and public management. The international community's recognition in the late 1990s of the corrosive effect of inadequate accountability at the all government levels is a logical extension of the link between governance and development created earlier in the decade. While progress has been made in a number of areas toward local government transparency and accountability with the establishment of institutional public sector budget frameworks, the rate of unspent funds in local governments appears increasing in almost all sectors in local government. This has been attributed to both internal and external factors. The diagnosis has been reflected in ensuring that there is better local government accountability.

KEY WORDS: consolidated fund, contingency fund, local government accountability, budget, Auditor General

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Statement of the Problem

In the last ten years, Ugandan' Health sector alone has had its budget on an increasing trend from Ugshs 474.41million in FY 2004/05 to Ugshs 676 billion in FY 2010/11 and Ugshs 1.2trillion in FY 2014/15. Despite the increments, the sector allocations remain at 8% of the national budget. The interesting factor is that the whereas the sector receives a paltry 8% of the national budget, the sector often remains with unspent balances by end of the financial year, which is often returned to the Consolidated Fund. During FY 2013/14 the unspent balances at Central Government level accounted for 24.1% of the released national budget. In FY 2014/15, a total of Ugshs 159 billion (exclusive of arrears, taxes and interest payments) remained unutilized by the end of the FY. The Permanent Secretary and Secretary to Treasury, in a letter to all Accounting Officers dated 28th July 2015 noted that ".....Returns to the Uganda Consolidated Fund from closed accounts and various Treasury Single Account holding accounts amounted to Ugshs 192,927,070,399. This excluded returns from Oil and Railway Levy, Local governments, missions abroad and several projects.

Several health sector votes have struggled to absorb all released funds over the years. In FY 2014/15, the sector (Votes on the IFMS) failed to spend Ugshs 3.2bn. Regional Referral Hospitals failed to spend a total of Ugshs 1.4bn of their development budget while the Uganda Cancer Institute returned Ug shs 519m to the Uganda Consolidated Fund at the end of the Financial Year. Per the Annual Budget Performance Report (FY 2014/15) under spending was significantly higher at Local Governments than at Central Government level. The 2015 Ministry of Finance Absorptive Capacities Constraints Report ranked, the Ministry of Health 36th out of 62 MDAs. By October 2011, a total of Ugshs 3.7bn for the previous financial year had not been spent; Ugshs 2.3bn was unspent in FY 2011/12; Ugshs 26bn remained unspent in financial year 2012/13; Ugshs 18bn was unspent in 2013/14 and Ugshs 192bn unspent in financial year 2014/15.

Analysis of sector expenditure indicates that the amount of unspent funds have been increasing over the last five years. Specifically, a total of Ug shs 243bn was not spent in the last five years giving an annual average of Ug shs

48bn annually for the last five years. Failure to absorb funds was often attributed to; poor planning, delays in procurement, disbursements and implementation. A number of entities failed to undertake procurement in a timely manner, for example GAVI failed to achieve and utilize most of the donor funds since Financial Year 2013/14 to date. Cases of late disbursements from Ministry of Finance were noted; during Financial Year 2014/15 all Regional Referral Hospitals received their 3rd and 4th quarter funds, two weeks late.

Implications of failing to spend allocated funds
Loss of lives: According to the Auditor General's Report FY 2014/15, a total of Ug shs 5.8 billion was not spent under the Global Fund project-Tuberculosis component. Uganda is among the high burden Tuberculosis countries in the World hence a number of Ugandans have continued to lose their lives to this deadly disease. The World Health Organisation noted that a total of 4,500 Ugandans died due to Tuberculosis in 2014. During FY 2013/14, only 3% of the Global Alliance for Vaccines Initiative budget was expended leaving enormous stock outs of the Pneumococcal Vaccine. According to the Pneumonia and Diarrhea Progress Report 2014, over 24,000 under-fives lost their lives to Pneumonia and Diarrhea in 2013

Failing to spend severely affects service Delivery in a number of ways. For example, failure to distribute necessary pharmaceuticals to health centers led to medical stock outs in all public health facilities. At Local Government level, construction and renovation of health facilities are often incomplete yet funds are returned to the consolidated fund. For example in Maddu Health Center III, Gomba district the staff house which was planned for completion in Financial Year 2014/15 was incomplete yet a total of Ug shs 38.8m was returned to Consolidation Fund.

Failure to achieve planned outputs and development plans: By the end of FY 2014/15, the Uganda Cancer Institute had unspent balances of over Ug shs 446m from their development budget yet a number of outputs including procurement of specialized machinery and construction of a radiotherapy bunker were outstanding. These two activities were rolled over to the subsequent financial year (FY2015/16).

Distortion of planning activities and losses in the real-time value for money; The Public Finance Management Act, 2015 further requires votes that return money to UCF to revise their annual work plans, procurement and recruitment plans in view of unspent funds. This contributes to loss of time and resources as activities have to be rescheduled. In some instances, delayed implementation is overtaken by changes in policy, for example, during FY 2012/13; a number of communities lost out on the benefits of having a nearby Health Centre II due to redirection of government priorities and policies on construction of HCIIIs. Contingency liability and exchange rate losses resulting from delayed implementation of projects: Some of the rolled over projects include Uganda Health Systems Strengthening Project (UHSSP) and Support to Mulago Hospital Rehabilitation among others under MoH. As a result, the GoU components have been affected by exchange rate losses thus increasing the project costs.

The National Development Plan (NDP) targets ambitious increases in government expenditure, particularly in the areas of transport, energy, infrastructure and human capital development. But in its report on the Budget Framework Paper for 2017/18, Parliament's Standing Committee on Budget expressed concern about the poor performance of the development budget, particularly in the first half of 2015/16. Further, the NDP11 Mid-term Evaluation revealed that only 50% of the targets have been realized According to United Nations Convention to Combat Desertification (UNCCD, 2017), the government of Uganda approved distinct proportions of inter-sectorial budget resources to the specific sectors of local governments for delivery of services to the public. For instance, government approved 42% of the total budget for local governments to primary education, 29.5% to primary health care, 4.9% to agriculture extension, 2.9% to functional adult literacy, 17.9% to road maintenance, 1% to community development and 1.2% to natural resources.

A closer analysis of the above allocations to the inter-sectorial budget allocations reveals that primary education, primary health care and road maintenance consume relatively sizeable proportions of the local government budget in comparison to other sectors. In almost all cases, the government funds over 97% of the district local government budgets while other funding is drawn from local revenue and donations (Auditor General Report, 2017/2018). There is also a general feeling that despite the stable macroeconomic environment and sustained growth over the years, the increased funding for almost all public services over time, has not necessarily translated into increased provision of services due to inadequate absorption of funds by the implementing agencies of government. For government to be much more effective and efficient in the execution of infrastructure projects and the delivery of its services focus must be to establish causes to low absorption of funds.

Study Methodology

The study relied majorly on documents linked to management of public funds related to Local Governments. A case study design with a specific focus on qualitative approach was applied to generate and analyze data

2.0 Rationale of budgeting and accountability

According to the local government finance and accountability regulation Act 1998, the Local Government must produce a budget because: it has scarce resources which are not sufficient to carry out all its programmes and projects, it is a legal requirement, to identify and disclose sources of income, to requisition for funds to implement approved programmes so that a particular programme does not encroach on the resources of others, it is a requirement of good governance and a political tool that provides overall guidance and it is an information/communication tool for both the central government and donors detailing how transfers from them to local governments were utilized and whether compliance with donor and national objectives is being observed.

Key Players and Stakeholders and their roles in budgeting

Players	Roles
1) LG Budget	<ul style="list-style-type: none"> ○ Responsible for managing the local government budget process nationally and setting policies and guidelines to be applied during the process
2) MoFPED	<ul style="list-style-type: none"> ○ Holds national budget conferences and regional local government budget framework workshops to kick-start the process
3) Line Ministries	<ul style="list-style-type: none"> ○ Review of sector recurrent and development expenditure policy guidelines, allocation of conditional grants
4) Local Government Finance Commission	<ul style="list-style-type: none"> ○ Advises on all allocations to LGs ○ Allocates unconditional, equalization grants ○ Ensures that local government budgets are balanced
5) Uganda Local Government Association (ULGA, ULAA & UAAU)	<ul style="list-style-type: none"> ○ Negotiates sector guidelines with the line ministries and advocates for local government on issues that concern them
6) The Local Council	<ul style="list-style-type: none"> ○ Approves the budget ○ Ensures the budget is implemented according to priority areas ○ Sets policy objectives and determines the development goals of LGs
7) Executive Committee of the Council	<ul style="list-style-type: none"> ○ Recommends policy to Council ○ Oversees implementation of council policies ○ Reviews costed priorities ○ Evaluates performance against approved work plans
8) Accounting Officer - CAO	<ul style="list-style-type: none"> ○ Oversees budgeting and budgetary control to ensure that planned activities proceed within the prescribed framework ○ Oversees revenues collection and expenditure according to approved budgets ○ Gives technical guidance to council ○ Makes reports to the executive committee on the progress of activities and projects
9) Budget Desk	<ul style="list-style-type: none"> ○ Prepares the budget which must be balanced

	<ul style="list-style-type: none"> ○ Prepares the budget call ○ Assists LLGs and HoDs in preparation of their budgets ○ Provides technical input to make revenue projections ○ Facilitates the prioritization process in sector committees and in the budget conference ○ Gathers and records information to the MoFPED regional LG Budget Framework paper workshop ○ Ensures sectors/departments observe the formal requirements for the budget including deadlines ○ Consolidates and prepares the LGBFP and budget in time ○ Prepares annual work plan
10) Chief Finance Officer	<ul style="list-style-type: none"> ○ Supervises and coordinates the budget desk ○ Ensures that no expenditure is incurred that is not in the approved budget ○ Supervises and ensures prompt collection of revenue
11) HoDs	<ul style="list-style-type: none"> ○ Formulate sectorial plans and budgets ○ Act as vote controllers

Source: Guide for participatory planning in LGs (MoLG).

2.1 Pre-Conditions for Successful Budgeting

According to Luthas (2014) local government budget must meet the following conditions.

The preparation process has to be consultative and participatory in order to ensure ownership to both process and approved budget

A systematic process of prioritization of programmes and expenditure which is based on informed choices must take place

Planned outputs, activities and expenditure allocations in the annual work plan and budget estimates must realistic and achievable

Realistic revenue estimates

2.2 The Criteria for Successful Budgeting Process

According to the local government Act 1997, local council budget must be prepared in accordance to the following criteria.

The full council must be at the center of the process so as to avoid monopolized and biased prioritization and expenditure choices

Sufficient time must be reserved for participation and dialogue between relevant stakeholders and for public hearings

Councilors must be provided with well-arranged and accessible budget material that gives a clear financial overview of past financial and output performance and the current and anticipated financial position of the council
 Clear linkages between plans and the budget, including recurrent cost implications of capital investments and development projects must be catered for

Possible scenarios and the consequences of different choices have been provided as a basis for political discussion and decision making.

2.3 Implications for late or no budget

According to the local government Act (1997), the budget is a legal requirement with a legal deadline. Section 83(iv) of the LGA requires that a local government must pass its budget not later than 15th June. The budget is central to effect implementation of local government programmes. The reading and subsequent approval of the budget and annual work plan by the council is a pre-condition for disbursement of central government transfers.

3.0 External factors contributing to increasing consolidated fund in local governments

3.1 High dependence on the central government

District local governments are highly dependent on central government transfers. During FY 2008/9, central government transfers accounted for 94.6 percent, while donor contributions accounted for 5 percent, and local revenues constituted only 1 percent. This level of dependency affects the service delivery and overall performance of the district. Most grants from the central government are conditional and therefore earmarked for specific services. Only a slight degree of flexibility is permissible, but even so with restrictions. The unconditional grant, which is the only grant that local governments may use as part of their revenue, is mainly used to pay staff salaries. In many instances, these funds are not adequate, creating a funding gap. This gap means that the districts have to operate below the acceptable minimum personnel structures. (Discussion with chief finance officer–Iganga district).

3.2 Absence of strategic development planning and Implementation targets

Almost all districts in Uganda operate using the three-year rolling DDP. The budgeting and implementation of the plan takes the form of an annual work plan with very short-term targets set for every financial year. There is no strategic long-term investment plan that can provide a framework for setting long-term development targets and budget allocations. For example, District Councils have no clearly defined targets for key sectors such as education, health, roads, or even local revenue collection over a number of years. Indeed, the absence of long-term strategic development targets denies the councils the opportunity to operate in a more strategic manner and to measure their own performance on the basis of clearly defined development and service delivery benchmarks. (Discussion with Buyende District Local government councilors)

3.3 Lack of Knowledge among the Electorate on the Civic Functions of the councils

There is wide civic incompetence manifested in a lack of basic knowledge by the electorate regarding the key roles of councilors and the basic functions of the local government system. The electorates in most Districts have serious misconceptions on the roles and responsibilities of councilors, and hence some within the electorate saw their councilors as people who are supposed to bury the dead, attend local parties, and make contributions to individual and community problems. They lack knowledge on the basic functions and duties of the council—from the planning cycle of local governments, to the rights and entitlements that the electorates can expect to get from their councils. This ignorance is an inhibitor for the public's participation in planning, budgeting, and implementation of the local government's programmes.

3.4 Political Power without Authority over planning and budgeting

Legally and politically, local government councils are responsible for all local government functions, including planning, financial accountability, and the delivery of public goods and services. However, most district political leadership holds no controlling or other appropriate authority to determine or direct how the funds allocated to the district are utilized. The Chief Administrative Officer (CAO) who is the accounting officer of the district is appointed by the central government. Additionally, the various ministries—including those responsible for local governments and finance—have developed a set of guidelines and procedures that limit the involvement of the local government councils in the management of the district's financial resources, including the procurement process. The guidelines and procedures enjoin the council to oversee the use of funds by the technical agencies of the local government, but don't permit them to get involved in the governance of these resources. This is popularly referred to as the “*eyes on, hands off*” approach to the governance of the financial resources of local government councils.

3.5 Corruption and public Service Delivery in the Districts

Findings from the 2016 Auditor General's Report revealed various forms of corruption including outstanding administrative advances, lack of land titles, poor quality and loss of cash in districts. During a separate investigation conducted by the office of the Inspector General of Government (IGG) during 2017, cases of low ethical standards were exposed in districts like Kaliro where the Town Clerk of Kaliro District was implicated in

the payment of bribe in a bid to secure his job. Furthermore, the IGG directed the Chief Administrative Officer to return the appointments of two officers who were deemed to have been irregularly appointed by the DSC in a non competitive process and thus called their positions to be re-advertised. During 2007 still, the Kaliro District records officer was detained at Central Police Station in Kampala for forging stamps and signatures in a bid to access a loan of Ug. Shs 945, 000. Such occurrences undermine and determine increased unspent balances since they fear to use central government grants since they have a lot of conditions and fear being arrested. They rather leave using the money to avoid that (Ashaasha et al, 2010).

3.6 Abuse of Public Office

A special audit ordered in Luwero in June 2016 by the State Minister for Primary Health exposed various forms of abuse of office including grave mismanagement in health centres. During the audit, one health centre was visited Kasana and three health centres in Bamunanika Sub County. The health centres did not have drugs including Coartem, a recommended malaria drug that is acquired free of charge from the National Medical Stores. Furthermore, the director for health services was not resident in the district and lived in Kampala. The medical store at the District health unit had expired drugs while patients complained of having to buy paraffin to light up the wards as well as having to pay for most of the prescribed drugs. The audit also highlighted poor monitoring on behalf of the district political leaders to whose attention the matter was not yet known. In a separate surprise visit to randomly-selected health centre IIIs including Butuntumula Health Centre III in Katikamu County, only 2 out of 10 health workers were on duty at 4:00pm, both of whom were midwives. This state of affairs reveals abuse of office on the part of the technical officers in District local governments and this undermines performance.

4.0 Internal actors or poor Performance and Poor Service Delivery

4.1 Quality of District Councilors and other capacity Issues

The quality of councilors is mainly affected by their average level of education. At the moment, there is no minimum education requirement for anyone to hold the office of a district councilor in many districts. In fact, councilors are not required to submit any academic papers as part of the eligibility requirements to contest for the office of councilor. There is widespread consensus that councilors with very low levels of education fail to express themselves during plenary sessions, while some cannot make written contributions to any committee. The low levels of education undermine effective debate and interaction among councilors and the highly educated technical staff whom they are presumably supposed to supervise. Besides, the councilors themselves do not keep coherent records of their activities and contributions.

4.2 Poor record-Keeping

As noted above, councilors in many Districts exhibited poor record-keeping in relation to their activities as elected leaders. For example although many councilors claim to have made contributions during meetings and met with their electorate, there are no records to confirm evidence to this effect. Some councilors do not have diaries or note books while others use loose record options and cell phones that cannot be tendered as evidence of performance at the time of the assessment. At the council level, it is common that while councilors claim to make contributions during plenary sessions, many such contributions are not recorded by the clerks to the council due to errors within.

4.3 Failure of councilors to provide link between electorate and the district

In a study conducted by ACODE (2017) in Namutumba, it was established that many councilors are often absent from their constituencies and leave their constituencies unattended to. It is no surprise, therefore, that the indicators with the worst scores were 'contact with electorate' and 'attendance of lower local councils.' This leaves constituencies devoid of political direction and the much-needed oversight role that political leaders ought to provide. It was noted, for example, that some councilors are engaged in businesses in Southern Sudan with little time for their council activities.

5.0 Good Governance, Accountability and Development-A Diagnostic Framework

There is a general consensus that good governance rests upon four pillars: accountability, transparency, predictability and participation.¹ Accountability means the capacity to hold public officials responsible for their actions. Transparency implies that there is low-cost accessibility (and, simplicity) to relevant information. Predictability results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced.² Most importantly, public participation is needed to supply reliable information and to

¹ ADB (2001) Pg. 10

² Ibid. Pg.10

provide a reality check for local government action. None of these four components can stand by itself. All four together are instrumental in achieving sound local government public management.¹

How are the four pillars of good local governance, especially accountability, linked to effective local government [financial] management?

A lack of local government financial resource **predictability** generally serves to undermine strategic prioritization, and makes it hard for local government officials to plan for the provision of services.

Transparency of local government financial information is essential for mayors, city councils, and the general public to be adequately informed about the performance of the locality. It is essential that information not only be provided but that it is relevant and understandable.²

Appropriate **participation** [involvement] of local citizens, NGOs, public officials and employees, and other stakeholders is necessary for the sound formulation of expenditure programs and for the monitoring of local government operational efficiency.

Accountability is needed for the use of local government funds and for the results of spending it.³

Although all four pillars of governance are interrelated, accountability rests at the center of good local government practices. Through overuse, the term accountability has acquired a number of different qualities and definitions. Effective accountability has two fundamental components:⁴

Answerability – is the requirement for local public officials to respond periodically to questions concerning how they use their authority, where the resources went, and what was achieved with them. Or more simply stated, local public officials are held responsible for the effective spending and performance of public funds.⁵

Consequences – there is a need for meaningful consequences because local government must account both for the use of public funds and for achieving effective results.

Strengthening local government accountability is necessary in the context of enhancing initiatives for greater decentralization and for local government managerial autonomy. New checks and balances may be required to assure that access to local government services and the quality of public services is not compromised, especially for the poorer segments of the population.

5.1 Accountability Linkages

In a well-functioning government structure, a local government is subject to accountability to its citizens, accountability to public agencies (or institutions), and accountability to higher-level governments. These kinds of accountability are referred to as:

Bottom up - by the local government to local citizens;

Horizontal accountability - by the local government to various public institutions of accountability⁶; and,

Vertical accountability by the local government to higher-level governments.

¹ Local government accountability is meaningless in the absence of secretive local government administrations.

² In 1998, the IMF assembled a 'Code of Good Practices on Fiscal Transparency' (see Annex A) which underlines the importance of clear fiscal roles and responsibilities, public availability of information, and open processes of budget preparation, execution and reporting. While not all the specifics of the Code are applicable to all local governments in developing countries, the Code serves as an excellent guideline for effective local government fiscal transparency practices.

³ ADB (1999) Pg 12

⁴ ADB (2001) Pg 11

⁵ In other words, internal administrative accountability must be mirrored by external accountability through feedback from service users and citizens.

⁶ G.O'Donnell, "Horizontal Accountability in New Democracies" in Schedler et al



Figure 1 Accountability Linkages

Figure 1 above illustrates, bottom-up accountability may include citizens acting through the electoral process or indirectly through civic organizations (i.e. NGOs, civil society) or the news media. Horizontal accountability covers the range of public entities in order to check local government abuses and inefficiencies. These agencies may include but are not limited to: electoral commissions, local government councils (or legislature), the court system, ombudsman or public complaints agencies, or various auditing agencies. Local governments are also held accountable to higher-level governments [central and state]. Central [and, state] governments often set the rules under which local governments operate. In addition, higher-level governments nearly always provide a portion of their financial resources to local governments through fiscal transfers. Thus, there is always some level of reporting and accountability by local governments to higher governmental authorities.

Due to various factors including poor salaries, weak morale, weak oversight institutions and laws, as well as the absence of effective local government public sector management practices, governmental accountability is frequently weak in many developing countries. Institutional weaknesses in many governmental organizations (i.e., audit bodies, courts) create an environment where horizontal and vertical accountability frequently fall short. Bottom-up accountability may similarly fall short if elections are dominated by political elites,¹ or if the electorate has few other ways to register its views on the quality of governance, or lacks the capacity to organize itself effectively.²

5.2 The Local Budget and Public Sector Accountability

Performance information is primarily a management, transparency and financial accountability tool rather than a mere budgetary instrument. Effective and efficient service delivery and local sector accountability requires performance management.³ In performance management, the local government establishes service objectives and monitors performance towards attaining those objectives. Characteristics of an effective budget that enhances performance are shown below.

¹ Mair, Peter and Richard S. Katz 1997 “Party Organization, Party Democracy, and the Emergence of the Cartel Party,” Chapter 5 (pp. 93-119) in Peter Mair, Party System Change: Approaches and Interpretations (Oxford: Clarendon Press).

² Mungui-Ppidi, Alina 2003 “Culture of Corruption or Accountability Deficit?” Easter European Constitutional Review, Fall 2002 / Winter 2003. New York: New YorkUniversityLawSchool

³ Performance management implies the planning, monitoring, and measuring of service performance

Table 1 Characteristics of an Effective Budget¹

Terms	Characteristics
<i>Accountability</i>	▪ <i>Detailed controls should be established which have the goal of ensuring that policy directives are carried out by managers, contractors and all concerned parties.</i>
<i>Comprehensiveness</i>	▪ <i>Includes all uses of government financial resources.</i>
<i>Constraint</i>	▪ <i>Contains limitations on the amount of money that need be acquired by government.</i>
<i>Cooperation</i>	▪ <i>Budgeting should exist in harmony with other decision processes and should not be dominant.</i>
<i>Honesty</i>	▪ <i>Contains unbiased projections.</i>
<i>Judgment</i>	▪ <i>Encourages participants to seek the most effect at the least cost.</i>
<i>Legitimacy</i>	▪ <i>The budget process should reserve important decisions to legally appropriate authorities.</i>
<i>Perception</i>	▪ <i>Considers both near and long-term.</i>
<i>Responsiveness</i>	▪ <i>The budget must adopt policies that match public preferences.</i>
<i>Timeliness</i>	▪ <i>A budget process should complete regular tasks when expected.</i>
<i>Transparency</i>	▪ <i>The budget and budget procedures should be understood by participants and outside stakeholders.</i>

Some of these characteristics for an effective budget relate primarily to the process of budget prioritization (comprehensiveness, perception). Other characteristics are related almost exclusively to operational efficiency (cooperation, timeliness). These standards, however, do not in general align themselves to clean separations. The most crucial factors that conspire against local government budget accountability are shown in Table 2 below.

¹See Meyers, Roy T., 1996. *Is There a Key to the Normative Budgeting Lock*, The World Bank, Washington, D.C.

Table 2 Characteristics That Adversely Impact Budget Performance

<i>Term</i>	<i>Characteristic</i>
<i>Extrabudgetary Funds</i>	<ul style="list-style-type: none"> ▪ <i>Extrabudgetary funds do not force tradeoffs between competing priorities.</i> ▪ <i>Extrabudgetary funds generally circumvent central controls, thereby violating the comprehensiveness standard.</i>
<i>Earmarked Funds (Earmarking)</i>	<ul style="list-style-type: none"> ▪ <i>Earmarked funds are dedicated to particular uses or purposes. Agencies with earmarked funds may have little or no incentive to economize.</i> ▪ <i>Earmarking may impede the government's ability to be flexible in managing its budget or in allocating resources.</i>
<i>Unpredictability</i>	<ul style="list-style-type: none"> ▪ <i>Inaccurate budget estimates, arbitrary budget cuts, and non-timely fund disbursements will create substantial budget unpredictability.</i>
<i>Unreliable Information</i>	<ul style="list-style-type: none"> ▪ <i>Inaccurate and unreliable information will conspire against enhancing budget performance.</i>

Source: Meyers, Roy T., 1996. *Is There a Key to the Normative Budgeting Lock*, The World Bank, Washington, D.C.

In order for an enabling environment to take place, it is important to diagnose the flows in the current budget system and to develop a strategy for correcting potential flaws. For example, developing methodologies to more accurately predict future financial flows and bringing more activities into the budget will contribute to better operational performance and improve local sector accountability.

5.3 Weak Local Accountability in Developing Countries

Bardhan (2002) illustrates that institutions of local accountability in developing countries are often weak, with the attendant risk of 'capture' of public resources by local elite. For example, when local government revenues are largely coming from taxpayers outside the local jurisdiction through intergovernmental grants, as is often the case in developing countries with geographic concentration of national resources and low revenue potential, there is a greater risk of 'capture' because local citizens might not be informed about what resources are available to their local representatives for the delivery of public services.¹ What can be done to improve the level of local accountability?

The conditions under which local governments have the right incentive(s) to improve the delivery of basic services have been explored in large volumes of political economy literature. One of the remedies to improving local government accountability suggested by this literature is to ensure greater information dissemination about the roles and responsibilities of government and the outcomes of public resource allocation.² As a result, Keefer and Khemani (2005) propose a specific type of policy intervention to strengthen local accountability, namely providing citizens with greater information about the resources and responsibilities of their local representatives, so that they are empowered to hold them accountable for the delivery of basic services.³ The following sections emphasize that policy interventions that address local information asymmetries are critical to empowering citizens to hold their local representatives accountable.

¹ S. Khemani (2002) 'Local Government Accountability for Service Delivery in Nigeria' Pg 6.

² See Keefer and Khemani (2005)

³ Fosu and Ryan (2004) reach similar conclusions with respect to the centrality of information dissemination and disclosure in policy interventions to improve accountability.

5.4 Accountability: A Diagnostic Framework

Although it is beyond the scope of this note to design a multi-pronged local government public finance accountability program with full diagnostics, provides a diagnostic tool that may be useful in determining whether a local government is engaged in bottom-up, vertical and horizontal accountability. The diagnostic represents the first phase of the approach. A more rigorous two-stage approach should be used: the first stage would be to fully document the existing system using the diagnostic as the background tool and the second stage would assess each element of the system, and design improvements according to local [and central] government priorities. A program which implements improvements based on the use of the questionnaire would have all the technical tools needed to improve its local government public financial management and accountability performance. Technical tools alone do not guarantee improved local government management and accountability, the other key ingredients include well-trained and highly motivated staff and, above all, political will and strong focused leadership.

6.0 Policy Considerations

Improving public sector accountability in developing countries requires a complex approach that recognizes the diverse factors underlying the persistence of weak governance. Creating interventions that improve local government accountability [and combat corruption] generally requires a tailor-made strategy that takes into consideration the particular contours of the problem in different countries. What are the lessons that can be drawn from the discussion above? Actions to improve local governance, public financial management and accountability need to be taken on numerous fronts.

6.1 Local and Central Government Relationships

The linkage between central and local government should not be overlooked since it can have significant positive [or adverse] effects on the accountability of local governments to their citizens. What is the appropriate role of central government to ensure accountability of local governments? Schroeder (2004) argues that the role of the central government in ensuring local government accountability is to ensure that: (i) local governments are provided with services in accordance with the assignment of powers and functions to local governments; and (ii) all local government resources (including the funds that are transferred to the local government by the central government) should be utilized efficiently and in the manner intended.¹

The two dimensions describing central and local governments inherently create some tension between the various levels of government. For example, in a decentralized environment, central governments devolve many expenditure assignments to local governments. Often, local governments [correctly] argue that many of these devolved expenditures are not fully funded. As a result, this leads to a lack of accountability by the local government. From the local government's public expenditure point of view, it is essential that when the central government devolves expenditure responsibilities, that they be fully funded. This would enhance local government accountability to local residents.

6.2 Building Integrity Incentives into Decentralization Policy

The preceding sections presented a number of fundamental issues which may adversely affect local government accountability. Table 6 outlines some basic decentralization policy considerations/ideals for improving local government accountability. However, due to various factors, these ideals are often compromised in many developing countries.²

¹ Schroeder (2004) "Mechanisms for Strengthening Local Accountability" Pg. 18

² These issues represent 'ideal situations' which may/may not be found in many developing countries. Political decentralization will in all likelihood not be ideal, nor complete, in many countries. However, it is essential to recognize the benchmarks and develop local government accountability mechanisms that fit accordingly.

Table 6 Building Integrity Incentives into Decentralization Policy

<i>Functional decentralization must be coordinated and precede financial decentralization</i>	<i>Transfer revenue- raising capacity before grants and only transfer revenues if obligation for service provision is clearly spelled out.</i>
<i>Assets not liabilities should be transferred to local governments</i>	<i>Before decentralizing a service, ‘clean it up.’ Do not decentralize inefficiency.</i>
<i>Political decentralization must be complete</i>	<i>Transfer full authority and demand full accountability.</i>
<i>Intergovernmental transfers must provide the correct incentives</i>	<i>Design the transfer system to meet the following criteria: autonomy, equity, predictability, efficiency, simplicity, incentives, and attained objectives.</i>
<i>Assure the regulatory framework, the structure of government and internal procedures do not provide incentives for corrupt behavior.</i>	<i>Put in place a local integrity system. Include a mechanism to assure transparency and public participation.</i>

Source: V. Vergara, ‘Municipal Integrity Workshop’, World Bank.

6.3 Operational Approach

Reforming public sector management and public finance requires: instilling meritocracy and adequate pay in public administration; clarifying government priorities, institutional goals and strategies, and institutional structures; enhancing transparency and accountability in fiscal management; and, stimulating policy reforms in service delivery. A general review of governance and functional structures local government departments should be given high priority. Some governments have moved local government functions into quasi-private sector structures. These structures blur the lines of policy direction and accountability. Off-budget agency funding also contributes to budget fragmentation and lack of transparency.

To improve transparency and accountability in fiscal management, it is necessary to ensure full budget control and coverage. In some developing countries, local government resources may be diverted into off-budget accounts. These accounts typically lack oversight and transparency. These off-budget transactions take different forms, from extra budgetary funds to the lack of integration of investment planning. A further challenge is to eliminate (or reduce) contingent liabilities (off-balance sheet guarantees) stemming from non-transparent off-budget commitments. In many developing countries, the budget formulation is often flawed by the ambiguity between the executive and legislative branch of government, and lack of policy coordination. In Bosnia, for example, until recently, expenditure projections lacked a medium-term perspective (and, revenue forecasts were often extremely unrealistic). The inability to develop realistic forecasts leads to non-transparent adjustments during budget execution. The potential for local government finance mismanagement increases dramatically. In addition, unclear budget appropriations and unreliable disbursements leave budget managers unable to deliver reliable services.

6.4 Consultation and Participation at the Local Level

Regional and local governments in developing countries present an uncertain terrain for good governance and effective accountability efforts. A significant amount of research has called into question whether decentralization is conducive to improved governmental accountability. Local governments in developing countries often suffer from low levels of political and social organization, low labor and capital mobility, and inadequate media coverage. In addition, some countries may also lack locally elected municipal councils (i.e. Jordan). There is, however, a substantial body of anecdotal evidence about the positive impact of consultative and participatory mechanisms in improving local service delivery.¹ Despite some limitations, local governments in developing economies can offer opportunities for improving public sector governance and accountability. For example, local civil society activism (i.e., Republic of Georgia ‘Rose Revolution’) is one prominent area for improving government accountability. In many developing countries, national legislation is often silent [or, sets minimal standards] with respect to administrative laws. As a result, local government reformers can often develop more expansive procedural rights for the general public at the local government level. While there is no single best way to promote accountability, multiple mechanisms may need to take root in order for local government accountability to prove effective.² Whatever instruments are promoted, they should be appropriate to the local political, economic and social environment.

¹ World Bank 2001. Romania: Local Service Delivery, V.2 Washington: The World Bank.

² See Harry Blair 2000 “Participation and Accountability at the Periphery: Democratic Local Governance in Six Countries,” World Development 28 (1): 21-39.

Russel-Einhorn (2004) suggests that there are three useful criteria for evaluating transparency and accountability mechanisms relevant to local circumstances in developing countries, including: Degree of visibility of the mechanism in question,¹ The simplicity of the mechanism,² The degree to which use of the mechanism can have a direct rather than indirect impact on government policies and programs.

The rationale for these criteria encompasses a number of practical factors including placing a premium on high visibility accountability mechanisms in order to cultivate a sense of community empowerment and collective action. In general, governments whose policies are put in question in a very public forum often find it more difficult to obfuscate their intentions. In addition, high costs can significantly retard the utility of any accountability tool. Accountability tools where the costs and legal sophistication are manageable may achieve better results, than those where relatively greater resources and expenditures are required. The third criterion is important given the need for demonstrable civic action.³ While building enhanced government accountability in developing countries is a long-term process, reform momentum critically depends on the ability to influence policy relatively quickly.

6.5 Public Discussion

The practice of having communities engage in public discussion can effectively increase transparency and public sector accountability. This practice is often used in Africa (i.e. Sudan, Kenya) where elders gather to discuss community matters in public. However, public discussion may exclude marginalized groups (i.e., women, religious minorities, or immigrants) who may not feel comfortable in expressing themselves. A requirement of public reporting to increase public sector accountability may include weekly postings of budgets in local newspapers.

6.6 Institutional Controls

Inadequate accountability mechanisms within the local civil service can be minimized with the installation of institutional controls. The most effective controls generally reside inside institutions. This implies that there is honest and effective supervision, auditing oversight and control, and an awareness and internalization of the standards of ethical behavior. Several countries and cities, including Singapore, Hong Kong, and Argentina, have created ethics offices. To be effective, these offices must be independent from the political establishment, have ample personnel and financial resources, and have high ethical standards. Ethics offices must also have the power to enforce penalties. However, several of these offices must report to the higher levels of government which may reduce their effectiveness and politicize the process thereby reducing overall effectiveness.

6.7 Transparency of Rules, Regulations, Laws and Processes

The lack of transparency in rules, laws, and process in many countries lessens local government accountability. Rules dealing with government procurement process, financial management and accounting are often confusing. Even if an individual exercises some initiative and tries to understand the rules, the documents specifying these rules may not be publicly available. Furthermore, many organizational rules may be changed without public announcements to that effect.

In many instances, regulations and laws are written so that only trained lawyers can understand their true impact. Many laws are often conceptually opaque, thus leaving grounds for different interpretation. In the United States, the judiciary may be called into discern the true nature of the law. In many developing countries, the judicial process is not as efficient. One of the ways to increase accountability in opaque regulations and laws is to establish more efficient regulation processes. The establishment of independent regulatory agencies, both at the national and local government level can be effective in promoting efficiency and limiting opportunities for corruption. These regulatory institutions however, must operate with transparency [hold public meetings], simplicity [rules-based principles], and accountability [election of regulators or term based regulators].

6.8 The Audit Function

Management controls are the policies and procedures put in place by the managers of an (government) entity to ensure its proper and effective operation. Developing an effective system of controls requires, first, a careful assessment of the risks confronting the organization. Policies and procedures can then be selected to control those risks effectively and at reasonable cost. No system of controls can provide an absolute guarantee against the occurrence of fraud, abuse, inefficiency, and human error. However, a well-designed system of controls can give

¹ According to Russel-Einhorn (2004) this can be measured in terms of the degree of public access afforded by the instrument and the number of citizens able to participate.

² This can be defined in terms of the likely financial, human, legal and other costs necessary to implement the tool effectively.

³ Ibid Pg 35.

reasonable assurance that significant irregularities can be detected. There are effectively two types of audit procedures, including:

Internal audit is part of an organization's management control structure. The internal audit office audits lower-level units on behalf of management. Among its most important functions, internal audits test the management controls themselves and assists senior management in assessing risks and in developing more cost-effective controls.

External audit of government operations is typically performed by a supreme audit institution (SAI) or an independent external auditing firm. External auditors typically perform compliance/regulatory audits, financial assurance audits, and value-for-money (efficiency) audits.

To be effective, external audit staff must have the professional skills required for the audits being performed. For an external auditor to move from ex-ante and regulatory audits to financial assurance and value-for-money (performance) audits, its staff will have to be more extensively trained in the more complex audits. In order for the external audit function to be effective, especially when pursuing the strategic objective of improved management controls or undertaking more advanced type of audits, an effective means of communicating audit results and a sound approach for encouraging effective appropriate corrective action must also be developed.

6.9 National Audit Institution

The introduction of effective control mechanisms on public administration is an integral part of any local accountability [and, anti-corruption] reform. Supreme Audit Institution(s) play a role in improving local government accountability. By definition, the Supreme Audit Institution acts on behalf of taxpayers in order to make sure that the government properly uses the taxpayer's money. Based on various constitutional and legal provisions, the Supreme Audit Institution should monitor and identify virtually all activities dealing with the budget and is also expected to provide an evaluation of the local government administration, focusing on: (i) local government agencies; (ii) public sector utility companies; and (iii) various government agencies and institutions that are the primary users of public sector funds.

6.10 Regulation of Public Procurement Procedures

Public procurement is broadly perceived in many countries as one of the areas most heavily affected by lack of transparency [and, corruption]. Many countries have established a National Public Procurement Agency (NPPA) that reports to the Council of Ministers as the central government body for co-ordination and development of the public procurement system. For example, in Albania, the Law on Public Procurement offers the simplicity of a unified law, which decentralizes the authority for conducting procurement to procuring agencies at both the central and local government levels of administration. One of the strengths of the law is that it established open tendering as the preferred method of public procurement practice. However, the efficacy of the open public procurement practice has been undermined by weak enforcement.

While the organizational arrangement of public procurement maybe in conformity with internationally accepted practices, the effectiveness of public procurement practices can be undermined by under sourcing and is susceptible to political influence. For example, the NPPA is included in the Albania government anti-corruption and public accountability matrix, but still there are significant problems that need to be resolved in order to have a competitive procurement system. One of any government's priorities should be to implement appropriate oversight measures to combat actual (and, perceived) procurement related corruption, and inadequate accountability, and to strengthen the enforcement of existing legislation.

7.0 Conclusion

Good governance and effective local government accountability are the single most important vehicles for establishing a country's economic and social priorities within the scarce resources that are available to government. Good governance [local government accountability] is an essential feature of a framework for economic and financial management including: financial and economic stability, promotion of efficient institutions, and social and economic equity. The movement toward decentralization of political power, public finance, and in some cases the finance of local public goods is thought to improve resource allocation, public sector accountability, while simultaneously reducing corruption in service delivery.

Under the right circumstances, devolution should increase the accountability of governments, public finances, and public service delivery. However, such evidence as there is suggests that decentralization of political power and public finances has not in itself led to better governance, increased transparency and accountability, and improved

economic performance. Local accountability may not achieve its potential if not guided by coherent and universal principles: strengthening governance (accountability, transparency, predictability, and participation); reinforce the foundation of civil society; and, engage in improvements in local government public expenditure management programs. In addition, programs to increase local government accountability must carefully consider the country-specific context.

In many developing countries, the budget formulation is often flawed by the ambiguity between the executive and legislative branch of government, lack of policy coordination, and the inability to impose trade-offs at the executive level. Furthermore, the inability to develop realistic forecasts leads to non-transparent adjustments during budget execution. As a result, the potential for public sector finance mismanagement increases dramatically.

In many countries unclear budget appropriations and unreliable disbursements leave local government budget managers unable to deliver reliable services. Reforms to promote greater accountability and control over budgetary expenditures require strong accounting and auditing systems. Effective public expenditure management [including accounting reforms] is instrumental to effective public service delivery and reducing the extent of public sector corruption. Without fiscal discipline, transparency and budget accountability, it is impossible to achieve effective prioritization and implementation of policy priorities.

Access to information on the actions and performance of government expenditures is critical to achieving government accountability. Unless the public knows what goods and services are provided, how well they are provided, who the beneficiaries are, and how much they cost, it cannot demand (nor expect) effective government. To promote government accountability, government budgets and expenditure programs need to be disclosed to the public. Another mechanism that promotes transparency and accountability with respect to public good finance is the periodic public sector audit. The public sector audit has proved to be effective in many developed countries.

There is no simple formula for the proper sequencing of these accountability enhancement activities. Sequencing should be developed in response to the particular constraints identified. Sequencing of reforms should be designed to enhance the credibility of the leadership, to ensure early tangible results and to strengthen the constituency for accountability reform.

8.0 Recommendations

The Government of Uganda should strengthen the Governance systems of Local Governments. Different stake holders should be equip to take their roles that would facilitate proper spending of funds. This can be done through training. Support supervision and monitoring and benching in search for best practices.

Harmonizing and Adherence to aggregated implementation guidelines through constant consultations would provide room for timely implementation and utilization of availed funds. Gaps arising from regional or district inequalities that would be hiccup to program success during consultation would be addressed.

Supportive monitoring and evaluation would be desirable for effective fund absorption. Routine evaluation devoid of tail end is useful in fast tracking progress and correcting defects that would delay fund utilization at either program or project levels. This would mean both the Central and Local Government authorities should strengthen grassroot approaches as means to effective fund utilization in monitoring and evaluation.

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