



THE REPUBLIC OF UGANDA

# Decentralization of the public sector wage bill: Are the objectives being met?

## Overview

The Government of Uganda adopted a decentralized salary payment processing system with effect from Financial Year 2014/15.

The main objectives of this policy shift are to; I) Ensure salaries are paid on time, II) Weed out invalid records on the payroll including “ghost” employees, and III) Promote ownership, transparency and accountability of the payroll by the respective Institutional Payroll Managers.

This reform is being implemented in accordance with Section 45(1) (a-c), and 11 (2) (c and d) of the Public Finance Management Act (PFMA 2015). This is in conformity with section 4 (1) (c) of the repealed Public Finance and Accountability Act (PFAA), 2003 as per section 85 of the PFMA (2015).

This policy brief seeks to explore whether the objectives of the reform are being met, highlight key challenges and propose recommendations to fully achieve the objectives of wage decentralization.

## Key achievements

- Timely payment of employers as most of them are paid between the 23rd and 28th of every month.
- There has been saving of money as more than Ug shs 400 billion had been saved by end of FY2014/15.
- There has been elimination of a big number of “ghost” employees from the government payroll as evidenced by the savings.

## Introduction

Over the years, the Government of Uganda (GoU) has implemented a number of Public Finance Management reforms. Some of these include; the Integrated Financial Management System (IFMS), Decentralization of the payroll processing and salary payments, and the Integrated Personnel and Payroll Management system (IPPS), among others. These are aimed at improving service delivery.

The decentralization of salary payment processing system to individual government entities/Ministries, Departments, Agencies (MDAs) and Local Governments (LGs) was effected in FY2014/15.

Under this arrangement, Accounting Officers (AO) are directly responsible for the control of, and are accountable for salary payments and ultimately wage expenditure of their respective Votes.

Prior to the decentralization, wage management was characterized by delayed payment of employees, persistent wage shortfalls, existence of 'ghost' workers, accumulation of arrears, and errors in the hitherto centralized system.

Government decentralized budgeting for and final payroll processing to the respective Accounting Officers. Decentralization has offered some remedy to earlier mentioned problems although some challenges affecting the process still persist.

Operational guidelines were developed and issued in accordance with Section 6(6) of the PFAA, 2003. They are being used by all Votes under the decentralized arrangement including MDAs, public universities, referral hospitals and LGs.

The presence of the IFMS that is supposed to be the sole Government payment system and the introduction of the IPPS as a human resource management information system were to ease the process of decentralized salary payment through their interface.

This accelerates the processing of the payroll and approval of salary payments, the detection of errors and omissions in the payroll, and strengthens the control measures of the data contained in the IPPS.

## **Achievement of Objectives**

After one and half years (July 2014 to March 2016) of implementation of the decentralized salary reform, it is evident that some of the key objectives of the reform are being achieved. Below are the key achievements.

### **Timely payment of salaries**

Tremendous achievement has been registered in terms of timeliness of salary payment. Majority of the employees now receive their pay between 23<sup>rd</sup> and 28<sup>th</sup> of every month as stipulated in the guidelines for decentralized salary payment. For example 85% of employees in LGs now receive salaries on time.

### **Clean-up of the payroll:**

A considerable number of "ghost" employees have been identified and since deleted off the payroll.

### **Savings on the wage bill budget**

By the end of FY2014/15, Ug shs 449.69 billion was saved from a budget of Ug shs 2904.8 billion compared to Ug shs 66.3 billion saved from a budget of Ug shs 2196.45 billion in FY2013/14.

### **Timely settlement of in-year salary arrears**

Accounting officers are empowered to revise the salaries of employees who may be underpaid and payments are effected. Additionally, the Accounting Officers are mandated to ensure that an employee who is recruited accesses the payroll immediately.

This has enabled the settlement of most salary arrears within two (2) months from the time they are detected and confirmed as arrears.

## **Improved staff supervision**

Accounting Officers can monitor staff performance, and thus help reduce absenteeism. For example if a civil servant is to abscond from duty without clear reasons, the threat of actual and immediate deletion from the payroll enforces compliance.

Despite the achievement of the objectives, there are still some challenges.

## **Key challenges in fully meeting the objectives**

- 1) Manual intervention on payroll processing especially in LGs has made it difficult to totally eliminate multiple payments and existence of 'ghost staff'. This is mainly attributed to the non-use of the IFMS-IPPS interface thus leading to variances in the payroll and IFMS figures. In December 2014, whereas the IPPS indicated a total payment of Ug shs 188.6 billion, the IFMS indicated Ug shs 210.6 billion.
- 2) Capacity constraints in using the IFMS mostly at the LG level. This explains why most LG Accounting Officers travel to the Ministry of Finance, Planning and Economic Development (MFPED) to effect payments of their respective Votes.
- 3) Wage shortfalls arising from failure to establish the right number of public servants. The Ministry of Public

Service (MoPS) consolidates the wages of institutions on account of the information availed to them by the Accounting Officers during the budgeting process. However, sometimes there is underestimation of the wage by MoPS. It is on such information that releases are made to various institutions. This leads to inadequate releases and non-payment of salaries which become arrears over time.

- 4) Internet downtime has in some cases affected the timely payment of salaries. The payment of salaries is system based (through the IFMS) which requires Internet connectivity. The absence of connectivity affects the timeliness of payments which is common in LGs.
- 5) Late payments of statutory dues like Pay As You Earn and National Social Security Fund deductions that distort payroll payment figures.

## **Conclusion**

The decentralization of the wage payment in the public sector has largely achieved the objectives of timely payment of workers' salaries and increased savings on the wage bill formally spent on "ghost" workers.

However, the non-existence of the IFMS-IPPS interface in some institutions especially at LGs level undermines this good progress. There is urgent need to address these challenges to fully meet the reform objectives.

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## Policy recommendations

1. The Ministry of Finance, Planning and Economic Development should fast track the formulation of the IPPS-IFMS interface, currently being undertaken by the National Information Technology Authority –Uganda (NITA-U), to be able to eliminate manual interference with the payroll.
2. The MoPS and MFPED should provide refresher/continuous training and support to payroll managers at all levels. This will enhance their understanding and use of both systems in executing their duties in regard to payroll management.
3. The MFPED and the respective Accounting Officers in MDAs/LGs should ensure that salaries to all workers and statutory deductions are paid within the specified time. This will facilitate reconciliation and clearance of unapplied Electronic Fund Transfers (EFTs) to avoid spillover effects that distort cash flow planning and hinder proper analysis of performance.
4. The MFPED and MoPS should strengthen quarterly monitoring of the payroll and wage under the decentralized payment system.
5. The MFPED and MoPS should summon Accounting Officers who have fluctuating payrolls to explain and appropriate action should be taken.
6. Accounting Officers should avoid in-year recruitments which have not been provided for in the budget.

## References

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For more information contact:

**Budget Monitoring and Accountability Unit (BMAU)**  
**Ministry of Finance, Planning and Economic Development**  
P.O.Box 8147 Kampala  
[www.finance.go.ug](http://www.finance.go.ug)