Evaluation of General Budget Support – Uganda Country Report

A Joint Evaluation of General Budget Support 1994-2004

Joint Evaluation of General Budget Support

May 2006

JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Uganda Country Report

May 2006

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PREFACE

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth.
The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

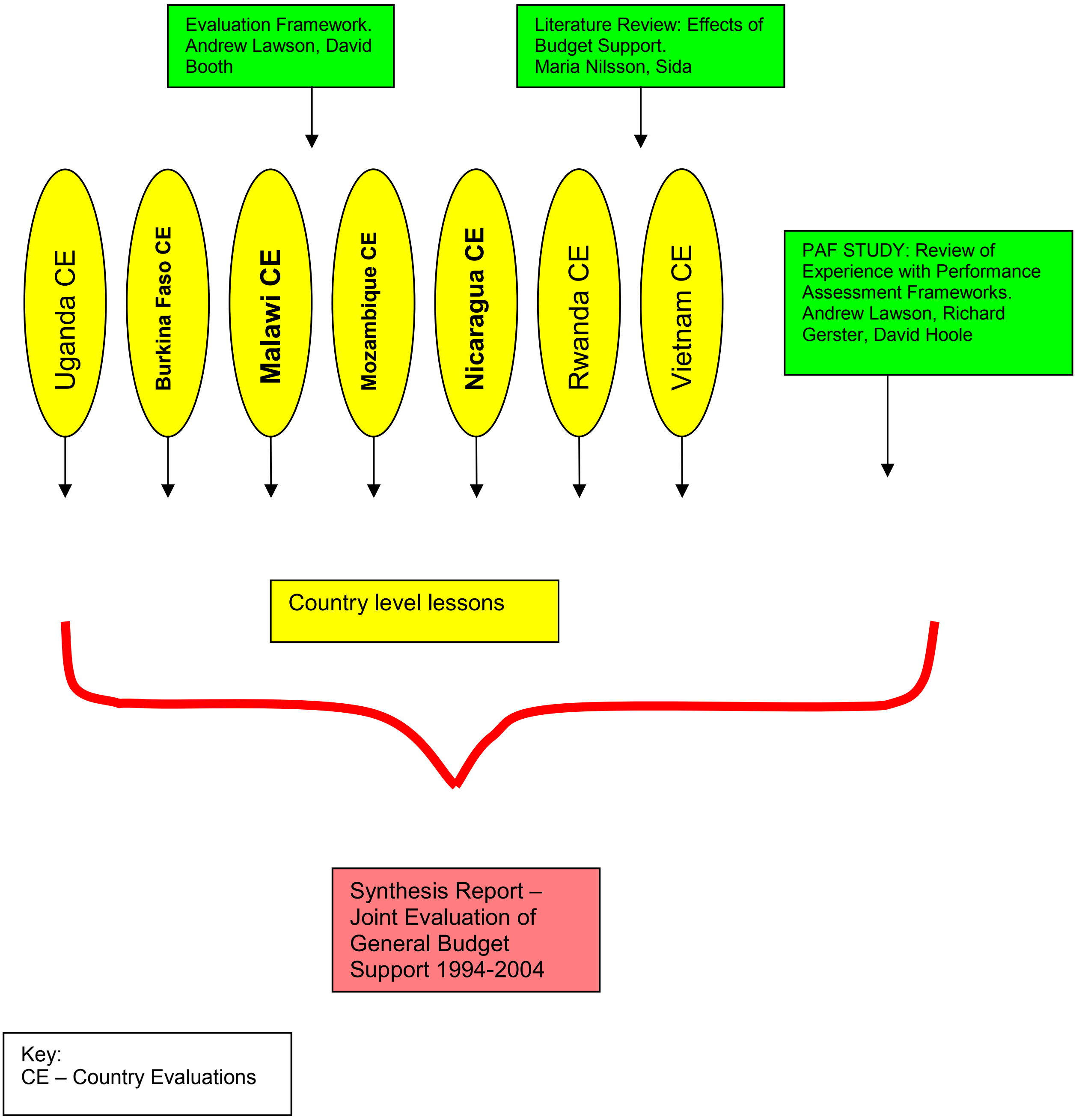
This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

This report represents the views of its authors and not necessarily the views of the Steering Group or its members.

*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



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Joint Evaluation of General Budget Support
UGANDA COUNTRY REPORT

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Abbreviations and Acronyms

AAP	Assessment and Action Plan (HIPC)
AfDB	African Development Bank
AfDF	African Development Fund
APR	Annual Progress Report
BFP	Budget Framework Paper
BOP	balance of payments
BOU	Bank of Uganda
BS	budget support
BWI	Bretton Woods Institutions *(i.e. WB and IMF)*
CAO	Chief Administrative Officer
CB	capacity building
CCS	Commitment Control System
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CIFA	Country Integrated Fiduciary Assessment
COA	Chart of Accounts
COFOG	Classification of Functions of Government
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
CR	Country Report
CSO	Civil Society Organisation
DAC	Development Assistance Committee (OECD)
Danida	Danish International Development Agency
DDP	District Development Plans
DDSG	Decentralisation Donor Sub-group
DFID	Department for International Development (UK)
DP	development partner
DWD	Department of Water Development
EC	European Commission
EEF	Enhanced Evaluation Framework
EFMP	Economic and Financial Management Programme
EFMP2	Second Economic and Financial Management Project (World Bank)
SAF	Structural Adjustment Facility
ESAF	Enhanced Structural Adjustment Facility
FAP	Financial Accountability Programme (DFID)
FY	financial/fiscal year
GBS	General Budget Support
GDP	gross domestic product
GFATM	Global Fund for AIDS, Tuberculosis and Malaria
GHI	Global Health Initiative
GNI	gross national income
GOU	Government of Uganda
GTZ	German agency for technical cooperation
H&A	harmonisation and alignment
HIPC	Highly Indebted Poor Country
HIV/AIDS	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome
HLG	Higher Local Government
HSSP	Health Sector Strategic Plan
IDA	International Development Association (World Bank)
IDD	International Development Department (University of Birmingham)
IFI	International Financial Institution

IFMS	Integrated Financial Management System
IFS	International Financial Statistics
IG	Inspectorate of Government
IGG	Inspector General of Government
IMF	International Monetary Fund
IP	international partner
IPF	Indicative Planning Figures
IPSAS	International Public Sector Accounting Standards
IR	Inception Report
IT	information technology
JARD	Joint Annual Review of Decentralisation
JICA	Japan International Cooperation Agency
JLO	Justice, Law and Order
JLOS	Justice, Law and Order Sector
LDG	Local Development Grant
LG	local government
LGDP	Local Government Development Programme
LGFAR	Local Governments Financial and Accounting Regulations
LGFC	Local Government Finance Commission
LGIFA	Local Government Integrated Fiduciary Assessment
LLG	Lower Local Government
LM	Line Ministry
LTEF	Long Term Expenditure Framework
M&E	monitoring and evaluation
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDA	Ministry, Department and Agency
MDF	Multilateral Development Fund
MDGs	Millennium Development Goals
MFPED	Ministry of Finance, Planning and Economic Development
MGLSD	Ministry of Gender, Labour and Social Development
MOES	Ministry of Education and Sport
MOF	Ministry of Finance
MOH	Ministry of Health
MOLG	Ministry of Local Government
MOPS	Ministry of Public Service
MOU	memorandum of understanding
MOWHC	Ministry of Works Housing and Communications
MOWLE	Ministry of Water, Lands and Environment
MTBF	Medium Term Budget Framework
MTEF	MediumTerm Expenditure Framework
NAADS	National Agricultural Advisory Services
NGO	non-governmental organisation
NIMES	National Integrated Monitoring and Evaluation System
NPA	National Planning Authority
NR	natural resources
NRM	National Resistance Movement
NSF	National Strategic Framework
NWSC	National Water and Sewerage Corporation
OAG	Office of the Auditor General
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD DAC	OECD Development Assistance Committee
OOB	outcome-oriented budgeting
OPM	Office of the Prime Minister

ORS	oral rehydration salts
PABS	Poverty Alleviation Budget Support
PAC	Public Accounts Committee
PAF	Poverty Action Fund
PAPSCA	Programme for the Alleviation of Poverty and the Social Costs of Adjustment
PE	Public Expenditure
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PEMCOM	Public Expenditure Management Committee
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Studies
PFM	public finance management
PGBS	Partnership General Budget Support
PMA	Plan for the Modernisation of Agriculture
PMS	Poverty Monitoring System
PMU	Parastatal Monitoring Unit
PNFP	private not-for-profit
PPA	Participatory Poverty Assessment
PPDA	Public Procurement and Disposal of Public Assets
PPP	Public Private Partnership
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
ROM	results-oriented management
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SASP	Structural Adjustment Support Programme
SC	steering committee
Sida	Swedish International Development Cooperation Agency
SPA	Strategic Partnership with Africa
SWAp	sector wide approach
SWG	Sector Working Group
TA	technical assistance
TM	treasury memorandum
TOR	Terms of Reference
UBOS	Uganda Bureau of Statistics
UGS	Uganda shillings
UNDP	United Nations Development Programme
UPE	universal primary education
UPPAP	Uganda Participatory Poverty Assessment Process
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
USD	US dollars
VFM	value for money
VPF	Virtual Poverty Fund
WB	World Bank

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Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

Terminology

Readers not familiar with Uganda should beware the abbreviation ***PAF****. In Uganda it refers to the* ***Poverty Action Fund*** *(not, as in the other studies in this series, a Performance Assessment Framework).*

Currency, Exchange Rate and Fiscal Year

Currency	Ugandan Shillings (UGS)
Exchange Rates	1 USD = UGS 1824.01 1 EUR = UGS 2190.91 (source: Financial Times 6 March 2006)
Fiscal Year	1 July – 30 July

EXECUTIVE SUMMARY

Part A: Context and Description of PGBS

Introduction and Conceptual Framework

S1. Uganda is one of seven case studies in a joint evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called "new" or "Partnership" GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

S2. Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Uganda study followed the same methodology as the other country cases. This is fully set out in the Inception Report approved by the steering committee for the study, and involves working through "levels of analysis" from the entry conditions at the point that PGBS was adopted, to the inputs made by PGBS, their immediate effects, outputs, outcomes and impacts on poverty reduction. The analysis in each chapter responds to a common set of evaluation questions. The Uganda report also incorporates a special study of decentralisation and PGBS.

The Context for Budget Support in Uganda

S3. After independence, Uganda suffered decades of conflict and misrule, during which the economy regressed and living standards declined. In 1986 the present National Resistance Movement (NRM) government took power, led by Yoweri Museveni. This ushered in a more peaceful period during which there has been stability and growth. President Museveni established good relations with the donor community, and Uganda was a pioneer in a number of developmental innovations: it was the first country to qualify for Heavily Indebted Poor Countries (HIPC) debt relief, its own poverty strategy anticipated the now-standard Poverty Reduction Strategy Papers (PRSPs), and it was the first recipient of a World Bank Poverty Reduction Support Credit (PRSC).

S4. Economic growth, which has averaged over 6% over the last 15 years, has had a significant effect in reducing income poverty, but Uganda remains one of the world's poorest countries, ranked 144 out of 159 countries on the Human Development Index (2005). Progress in raising per capita incomes has been undermined by high population growth, which averaged 3.4% a year between 1990 and 2002. The HIV/AIDS pandemic had a devastating impact on the Ugandan population throughout the 1990s, but there were dramatic reductions in HIV prevalence from around 20% to below 10% in 2000, and now levels have stabilised at around 7%. There are significant regional variations in human development outcomes, and the North, which is ravaged by conflict, lags behind the rest of the country.

S5. From the mid-1980s, the International Monetary Fund (IMF) and the World Bank undertook a series of structural adjustment operations in Uganda. Initially there were tensions between them and the Government of Uganda (GOU) over macroeconomic policy, but there was a breakthrough in 1992 when, after an episode of fiscal indiscipline, President Museveni strengthened the position of a unified Ministry of Finance, Planning and Economic Development (MFPED), which introduced a rigorous system of cash budgeting. Since then fiscal deficits and inflation have been kept under control (with inflation remaining below 10% since 1994). The track record of strong macroeconomic management throughout the evaluation period meant that the dialogue between Uganda and its international partners (IPs) moved on to issues of development strategy and public expenditure.

S6. In the early 1990s, while targeted interventions were carried out to alleviate the adverse social costs of structural adjustment, concerns emerged about the need to address poverty issues more comprehensively and to focus aid more effectively. In 1995 a forum on poverty attended by the President was held, and a task force was established to examine how poverty could be tackled. This task force developed Uganda's first comprehensive poverty reduction strategy, the Poverty Eradication Action Plan (PEAP1), which was published by the Government in 1997. The PEAP, now in its third iteration, is widely regarded as a genuine, and government-owned, poverty reduction strategy. Disciplined macroeconomic management was allied to the strengthening of public finance management, led by MFPED, including the development of increasingly sophisticated links between medium-term plans and budgets, with the result that PEAP priorities could be reflected in budget allocations.

S7. Throughout the evaluation period, Uganda maintained a democratic but "no-party" system of governance, reflected in the 1995 constitution, which also provided the framework for systematic decentralisation. The NRM government was a marked improvement on its predecessors, with a lower incidence of human rights abuses and tolerating a vociferous press. Its relations with the international community were good, but have recently become more strained over Uganda's involvement in regional conflicts, uncertain transition towards multi-party democracy, high-level corruption, and the amendment of the constitution to allow President Museveni to seek a third elected term of office.

S8. Uganda is a highly aid-dependent country. Over the evaluation period, aid flows averaged 11% of GDP and 50% of public expenditure. The political and economic success of the NRM government, contrasted with that of its predecessors, led Uganda in the late 1990s to be regarded as a rare success story in Africa. An active and transparent aid management strategy helped to ensure sustained support from a wide range of bilateral and multilateral aid agencies.

The Evolution of Partnership GBS in Uganda

S9. Uganda was a pioneer in new (Partnership) GBS, which currently accounts for half of its aid flows and involves a wide range of donors and a large number of instruments. The genesis of PGBS lies in: evolution from structural adjustment and debt-relief forms of programme aid; strengthening of the planning and budgeting system which underpinned moves towards sector-wide planning and aid coordination in key sectors; development of a national poverty reduction strategy (the PEAP); and the linking of HIPC debt relief to an innovative Poverty Action Fund (PAF). Government was an active innovator, with clear preferences concerning aid modalities which were expressed in the PEAP2 partnership principles.

S10. New-style (Partnership) GBS began in Uganda in 1998, with the funding of the Poverty Action Fund, using notionally earmarked budget support alongside HIPC debt relief. This was allocated to priority poverty reduction programmes through the GOU budget, including earmarked sector budget support linked to sector programmes in education and then health. The introduction of the PRSC by the World Bank in 2001 marked the first full unearmarked PGBS designed to support Uganda in the implementation of the PEAP.

S11. Between 1998 and 2000 there was a rapid increase in aid flows, associated with increasing donor confidence in GOU reforms, and the emergence of PGBS. There was a large absolute and relative increase in programme aid from 2000 to 2003 as an increasing number of donors began using budget support, to varying degrees, as part of their aid portfolios. Programme aid reached, and remains at, well over 50% of on-budget aid flows. By 2003/04 there were 13 different donors providing PGBS, and these donors were operating 34 different budget support programmes, of which 25 were sector budget support programmes.

S12. Over the evaluation period development partners have used three main variants of PGBS:

- *Sector Budget Support* – budget support notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the Poverty Action Fund. This represents the largest number of budget support instruments, and has involved the largest number of donors – 13 up to 2004. Between 1998/99 and 2003/04 approximately USD 509m was disbursed using this form of budget support.
- *Poverty Action Fund General Budget Support* – budget support that is notionally earmarked to the Poverty Action Fund as a whole, but not to individual sectors. Five donors have taken this approach to budget support, and approximately USD 145m has been disbursed between 1998/99 and 2003/04.
- *Full General Budget Support* – this is completely unearmarked. Six donors have used full GBS as an instrument, and this includes the World Bank's PRSC. Despite the small number of full GBS donors it represents the largest amount of PGBS, with USD 713m being disbursed between 1999/2000 and 2003/04.

S13. Since in all cases the funding is only notionally earmarked to particular expenditures, all these variants are treated as PGBS for the evaluation. Because of its scale and central position in the dialogue, the PRSC functions as the leading edge of PGBS.

Part B: Analysis of PGBS

The Relevance of PGBS

S14. The first stage of the evaluation is to consider the relevance of the "design" of PGBS – considering what guided donors' decisions to enter PGBS and what adaptations they made to match their objectives to the political, institutional, and economic context. In fact there have been, and are, many PGBS instruments, and they have evolved significantly over the period. The study has assembled a full inventory of these instruments and their characteristics in terms of financial flows, disbursement conditions, dialogue arrangements, harmonisation and alignment of the IPs, and complementary technical assistance and capacity building (TA/CB). While the finance is straightforward to identify as a discrete input, the other inputs are typically shared with other aid instruments, and the TA/CB inputs are both the least explicit part of the design and the most difficult to identify separately.

S15. Overall the many different designs of PGBS have been fairly responsive to the specific conditions of Uganda, and they have adapted to the evolving PRSP and sector priorities. However, the original design was perhaps too optimistic about governance issues and there was a bias towards the social sectors, with productive issues emerging later.

S16. Much of the PGBS dialogue used pre-existing sector and budgetary forums, with the PRSC steering committee being the main addition. Conditionality has been increasingly focused on government policies and plans. Despite being well structured, there are gaps where dialogue and conditionality could have helped foster reforms, while the dialogue often gets dominated by issues where progress is unlikely. Meanwhile IPs have made inaccurate assumptions about the level of government ownership of policies and plans, which are increasingly technocratic, and less political.

S17. The 1997 PEAP (whose subsequent iterations became the PRSP) and sector strategies, which were again initiated before the move to PGBS, meant there was a strong framework of poverty reduction objectives to which PGBS could be aligned from the outset. Although the PGBS design responded to a lot of the weaknesses in aid instruments in terms of alignment towards government objectives and harmonisation with government systems, there is still a degree of incoherence and inconsistency in design across donors.

Effects on Harmonisation and Alignment

S18. PGBS has been part of an elaborate structure of dialogue and coordination, including annual Consultative Group meetings, direct involvement of donors, through Sector Working Groups, in the budget process, and an annual PRSC timetable.

S19. The alignment of PGBS towards GOU objectives and targets set out in the framework of the PEAP and sector strategies has been strong, and given the relative and absolute increases in PGBS this has had a strong effect on alignment of IPs towards GOU objectives. Because of the strong plan–budget links in the GOU system, such alignment was more than lip-service to policy objectives. However, conditions have not always been aligned with pre-existing government policies, although GOU is always involved in their selection. MFPED played a strong role in aid coordination early on, and GOU and donors have increasingly used joint analytical work. There has, however, been limited improvement in the coordination and management of TA and CB support, although some is linked to the PRSC dialogue.

S20. Alignment of PGBS with the budget cycle is not strong: commitments are not aligned with GOU's medium-term and long-term planning horizon, and in-year disbursements vary across donors. PGBS has, automatically, contributed strongly to the increased use of government implementation systems, although recent increases in project support are threatening to undermine this.

Effects on Public Expenditure

S21. PGBS has had a major effect in increasing total and pro-poor expenditures. The latter have been largely channelled to basic services delivered by local governments. Uganda's public revenues and expenditures have increased in real terms by 240% over the last 10 years. PGBS funding has contributed 31% of the real increase in public expenditures between 1997/98 and 2003/04, when pro-poor expenditures increased from 17% to 37% of the budget with a knock-on effect in increasing the transfers to local governments. PGBS has been effective in increasing the discretionary funding on-budget, even when a substantial proportion has been notionally earmarked under the Poverty Action Fund, as GOU was able to influence where that funding was earmarked to.

S22. Flows have been broadly predictable, inasmuch as the GOU has been able to expect continued high levels of aid, but there have been problems with short-term predictability of disbursements (which has recently improved). MFPED has coped with short-term unpredictability by discounting projected disbursements and using reserves to buffer expenditures.

S23. PGBS has contributed to allocative efficiency through the shift to pro-poor expenditures under the Poverty Action Fund (PAF), but the definition of pro-poor expenditures in the PAF is limited and programmes only get added but not withdrawn, which may limit the efficiency gain. PGBS has also increased operational efficiency, as an increased share of sector budgets is being channelled to service providers and there has been a relative decline in public administration expenditure; however, rapid increases in public expenditure may have weakened incentives to improve efficiency. There is also evidence that transaction costs for administering PGBS are relatively lower than for project support.

Effects on Planning and Budgeting Systems

S24. The basic elements of the budgetary formulation process were in place prior to PGBS. Flows of PGBS funding assisted in strengthening Uganda's PFM systems and increased the attention that spending agencies paid to that process. This was mainly due to the higher proportion of on-budget funding, which strengthened the budgeting process and provided an incentive for agencies to develop their strategies and plans.

S25. The influence of PGBS on accountability has been mixed. In some areas there are signs of increased accountability through sector review processes and in greater involvement of Parliament in the budget process. However, donors often dominate the dialogue at the expense of domestic stakeholders.

S26. So long as strong leadership remains in the MFPED, these improvements are likely to be sustained, although there is evidence that a combination of Poverty Action Fund rigidities and an increasingly routine budget process and perceptibly weaker budget challenge may undermine the future efficiency of public expenditure.

S27. Other PGBS inputs, most notably policy dialogue and technical assistance, have helped put managerial pressure on the budgetary reform programme, but those reforms remain more technocratic than focused on democratic accountability. Technical assistance and capacity building linked to PGBS have helped improve PFM systems but their effectiveness has been limited, as they have not been strategic or linked to a coherent reform programme. There has, however been greater focus on central budgetary systems than on those for local governments, even though there have been major expansions in local resources and service delivery at that level. National level dialogue on the budget has tended to be distracted by issues where progress is unlikely, at the expense of areas where dialogue is more likely to yield results.

Effects on Policies and Policy Processes

S28. Uganda has a particularly well developed set of policy processes at the sector level, many of which pre-dated PGBS, and increasingly so in cross-cutting areas of reform such as decentralisation and PFM. However, the political ownership of these processes has been weakening.

S29. PGBS and non-PGBS IPs are important participants in policy making at the sector and cross-sector levels, as a result of a coincidence of interests between the President, MFPED and the IPs, but this coalition is increasingly fragile. Consensus around the broad strategy and objectives of the PEAPs enabled the GOU and donors to focus on means and priorities in the context of the system of medium-term expenditure planning. Where the quality of dialogue and resulting conditions was good, they played a positive role in refining policy and in providing additional impetus to key reforms. Donor influence was partly responsible for the involvement of a wider range of stakeholders including civil society, in policy processes, although some question its meaningfulness.

S30. Processes are often adaptive to circumstances and constraints, including political decisions such as free healthcare. While cross-cutting processes are less well developed, the policy dialogue and conditionality helped protect some of the ongoing reform processes in PFM and decentralisation from opponents, and maintain the pace of reform. At the same time, the prominence of the donors has tended to overshadow domestic stakeholders, including Parliament.

S31. Sector policies and public expenditure plans are particularly explicitly linked in Uganda, and the Long Term Expenditure Framework has added a long-term perspective. However, policies have often been public-sector-dominated and neglected the role of the private sector, although these issues are becoming increasingly prominent.

Effects on Macroeconomic Performance

S32. Macroeconomic stability and discipline were maintained throughout the evaluation period, with low inflation and tight control over aggregate public spending. The foundations for Uganda’s strong macroeconomic performance had been laid before PGBS, and balance of payment (BOP) support was crucial to this. PGBS has allowed higher levels of public expenditure and of foreign exchange reserves, facilitating cash management and the use of reserves to limit exchange rate volatility. A dialogue on macroeconomic issues with the IMF continues and PGBS disbursements are usually tied to Uganda remaining on track with the IMF.

S33. Increases in aid, and PGBS insofar as it has facilitated a rapid expansion in aid, have contributed to an increase in the costs of budget financing, as the GOU has chosen a sterilisation strategy which favours issuing domestic debt relative to selling foreign exchange. This strategy has been chosen because of concerns over the effect of high aid flows on export growth.

S34. Although private sector investment has increased throughout the evaluation period, high domestic interest rates, in part a consequence of the GOU’s sterilisation strategy, undoubtedly have a dampening effect on the private sector. Overall, however, both private sector investment and export growth (in terms of volume at least) have been buoyant, indicating that aid-fuelled increases in public expenditure have not excessively crowded out private sector growth. The GOU is concerned to pre-empt "Dutch Disease" effects of large aid inflows, and therefore seeks to set a limit to the deficit, but issues about Uganda’s absorptive capacity for aid are not specific to the PGBS modality. Although domestic revenues are low, they have been growing as a proportion of GDP and there is no evidence to suggest that PGBS has had a negative effect on total revenue collections.

S35. There is strong commitment, politically and within MFPED and the Bank of Uganda (BOU), to the maintenance of fiscal discipline and macroeconomic stability, which PGBS has supported, but did not originate.

Effects on the Delivery of Public Services

S36. PGBS funding has accelerated increases in the quantity of basic services delivered by local governments, from which the poor have undoubtedly benefited, although the targeting of those services is not always pro-poor. However, the quality of services in health and education is very weak, and undermines the benefits of expansion.

S37. Through its flexibility, PGBS has also allowed more efficient and effective resource allocation for service delivery. This manifests itself in the extent to which the GOU has been able to expand expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending.

S38. The Poverty Action Fund facilitated this, and the notional earmarking of PGBS to the Poverty Action Fund and sectors helped accelerate the change. Decentralisation has been a key reform and through facilitating increased transfers to local governments PGBS funds had a hand in strengthening new institutional relationships in service delivery and building institutional capacity in local governments (LGs). However, LGs have been given only limited autonomy over the funds provided, which has undermined the responsiveness of those services.

S39. Other PGBS inputs have helped to support some of the reforms and initiatives relating to delivery, especially at the sector level, and most sectors have developed clearer policy frameworks and strategies for implementation. However, policy dialogue, TA and CB have not been given attention commensurate with their importance to local government institutional issues or to service provider–client relationships as means of improving the quality and accountability of services. There has been inadequate focus on strengthening service delivery institutions, beyond increasing the inputs available to them.

Effects on Poverty Reduction

S40. The proportion of Ugandans below the national poverty line fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003. The causes of these trends, and the robustness of the data, are matters of debate. There are significant regional variations, with poverty remaining exceptionally high in the conflict-affected North. The influences on income poverty include many factors besides government action and aid flows, and it would be inappropriate to ascribe trends in either direction simply to the poverty reduction strategy that PGBS has supported.

S41. However, PGBS has made some impact. PGBS has made a major and efficient financial contribution to the expansion of service delivery that the poor have been able to access, although weak quality is undermining the benefit accrued from those services. PGBS funds contributed to a generally positive macroeconomic environment which has supported income growth, but otherwise the PGBS influence on income poverty is limited. The domination of the social-service-driven agenda early on in the evolution of PGBS has limited the room for promoting public sector action which promotes income generation and growth. However, non-financial inputs have fostered policy review, which has highlighted the need to pay more specific attention to service delivery quality and income poverty in future.

S42. PGBS has supported decentralisation which is intended to encourage participative decision-making, but the impact on empowerment of the poor is not conclusive. There have not been significant improvements in the administration of justice or human rights, and people affected by conflict in north Uganda have received limited attention.

The Sustainability of PGBS

S43. The mechanisms for managing PGBS and for monitoring it, in the context of overall monitoring of the national poverty reduction strategy, are continuing to evolve in response to experience, and are strongly rooted in national systems for planning and budgeting. Further convergence is likely as the PRSC performance matrix is more directly drawn from the PEAP. In Uganda there are mechanisms for monitoring the three main flows of PGBS; however, there is an imbalance in monitoring. Expenditure-level and outcome-level monitoring are well developed, but routine data collection on the direct results of public sector action is limited and this limits the scope for evidence-based decision-making. It is important to strengthen the specification and monitoring of intermediate links so that the implementation and effectiveness of policies can be followed up.

S44. The scope for involvement of IPs in policy processes and the nature of those processes at the sector and cross-sector levels provide substantial scope for shared learning, but short institutional memory on the side of IPs undermines this somewhat. Systems for providing feedback through sector review mechanisms and the PRSC steering committee are well established. However, the apparent reduction in political involvement in these processes does not augur well for sustainability. In addition, concerns about political transition and corruption make their Uganda aid harder for IPs to justify to domestic audiences. PGBS, because it is not earmarked, is regarded as especially vulnerable to criticism.

S45. Threats to the effectiveness of PGBS may come from a weakening of the coalition of interests between the presidency, MFPED and donors. Sustainability, and continued positive effects from PGBS, will depend on graduated responses linked to a realistic appreciation of the limits of donor influence.

Part C: Cross-Cutting issues

S46. In general, PGBS has proved a useful complement to other aid instruments in addressing a range of cross-cutting issues, with these issues being integrated into the PEAP and forums for dialogue established.

Policy CCIs

S47. *Gender* issues are addressed and mainstreamed more systematically in Uganda than in many countries and existing government structures have been used rather than parallel structures. The PEAP dialogue has embraced dialogue on gender, and there is a donor group which deals with gender issues, and engages on these matters.

S48. *Environment* issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001. PRSCs have included actions relating to strengthening environmental institutions, but they remain weak and are lent limited budget priority.

S49. Uganda was one of the first countries, with a strong political lead, where *HIV/AIDS* prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP, and there is controversy over the extent to which global funds can be accepted, given the government's macroeconomic ceiling.

Public and Private Sector Issues

S50. As highlighted earlier, there was an early bias in PGBS towards social sector service delivery, although MFPED always emphasised the importance of macroeconomic stability for fostering private sector investment and growth. Successive PEAPs and PRSCs have given greater attention to issues of economic growth and private sector development, but the expansion of initiatives such as the Agricultural Advisory Services is constrained because resources have been pre-empted by basic public services.

Government Capacity and Capacity Building

S51. There has been limited systematic capacity building of government institutions, although PGBS funding, through its effect on public expenditures, has served to improve the incentives for institutions to build their capacity.

S52. Donor TA/CB have been the least well specified inputs of PGBS, and there has been little improvement in the coordination and targeting of such activities as a result of PGBS. There has been an absence of coherent capacity-building strategies within government, while there are large variations of capacity in central and government institutions. TA/CB support has been carried out differently in different sectors in central government and tends to be fragmented. More innovative approaches to capacity building have been attempted at the local government level, and linked to incentives to access grants with some success, but there remains a lack of technical support to new policy initiatives. There is therefore scope for greater complementarity between PGBS funds and TA/CB inputs.

S53. PFM has been a natural focus for PGBS-linked capacity development, but LG capacity is crucial to effective service provision and should receive more emphasis.

S54. It is important for donors to reinforce the capacity gains that have been made, and not undermine them by a reversion to parallel systems.

Quality of Partnership

S55. On balance Uganda supports the contention that PGBS conditionality is qualitatively different from earlier structural adjustment approaches. The role of conditions is mainly as information signals to constituents, and they provide impetus to technical reforms only when they have support within government; it remains clear that conditions do not simply "buy reform" or "make things happen". PGBS used existing sector dialogue structures and budget dialogue rather than create separate ones, which has helped ensure greater consistency and complementarity of different aid instruments.

S56. As PGBS is disbursed using government systems, it costs less to administer, and joint PRSC and sector dialogues reduce duplication, although they can be unwieldy. However, recent increases in project support means that transaction costs, in aggregate, may not be falling.

Political Governance and Corruption

S57. The interaction between PGBS and other aid modalities is an important influence on the overall effectiveness of aid. The pursuit of mixed project/PGBS strategies in some sectors limits the benefits from PGBS. The GOU and IPs should review the appropriate balance between aid instruments in each sector.

S58. "Governance" covers a spectrum of political and technical issues which have become increasingly important in the relationship between the GOU and IPs over recent years. Performance against governance criteria is difficult to measure objectively, but there has been a growing gap between GOU performance and IP expectations (some of which were based on an initial misreading of Ugandan politics).

S59. Many aspects of governance, including human rights, are addressed in the PEAPs, but political ownership of the PEAPs has been diminishing. Efforts by bilateral donors to raise governance concerns through a "governance matrix" have had limited success. At the same time, the potential for political crises to undermine the relationship seems to be increasing. PGBS offers opportunities for engagement with GOU on a range of governance issues, but it cannot buy governance reforms that threaten key political interests.

S60. Corruption is especially corrosive of IP support for PGBS, but there has been more success in strengthening basic PFM systems and increasing transparency than in high-profile anti-corruption legislation. It should not be assumed that PGBS is automatically more vulnerable to corruption than other forms of aid. Safeguards in delivery of PGBS are important, but it also offers opportunities to strengthen GOU fiduciary systems.

S61. Many of the reforms and capacity improvements supported by PGBS are equally relevant to the accountability requirements of domestic stakeholders as well as IPs, though IPs need to be careful not to overshadow domestic stakeholders.

Part D: Synthesis – Overall Conclusions and Recommendations

Overall Assessment

S62. Our overall assessment is positive. PGBS has been an effective means of supporting a relevant national poverty-reduction strategy. It enabled the GOU to expand the delivery of basic services to the poor through decentralised bodies quicker than otherwise would have been the case. There have, on balance, been gains in both allocative and operational efficiency, including a reduction in the transaction costs of utilising aid. PGBS funds, combined with other inputs, have had some important systemic effects on capacity, particularly in strengthening the planning and budgeting system by making discretionary funds available. There were also positive effects on the harmonisation and alignment of aid. The Poverty Action Fund and the system of notional earmarking were very useful devices in demonstrating the purpose and uses of aid without incurring the inefficiencies of prescriptive earmarking. It is highly implausible that the same level and effectiveness of expenditures could have been achieved through other modalities alone.

S63. There were elements of good fortune in the timing of PGBS, and in its ability to build on systems for linking policies and budgets that MFPED had already developed. The scale of PGBS flows was important in giving the government budgeting system a decisive influence.

S64. PGBS has been more of a partnership than previous conditionality, and has helped to extend GOU ownership across modalities. The focus on government systems has helped to strengthen transparency and raise some fiduciary standards, although fiduciary risks remain high. In hindsight, Uganda's strategy of expanding basic public services paid too little attention to income-generation and to the quality and pro-poor targeting of public services. The pace of expansion inevitably had a cost in efficiency, and put the capacity and the accountability mechanisms of local governments under enormous stress. However, the systems of dialogue and policy review associated with PGBS enable such issues to be confronted, and these early imbalances are beginning to be rectified.

Future Challenges

S65. Looking ahead, the rationale for PGBS remains valid, but the political and institutional context has become more difficult. Although PGBS is essentially an instrument for long-term financial and institutional support to a national poverty-reduction strategy, it seems particularly vulnerable in the short term when difficulties arise in the relationships between IPs and an incumbent government. There is a danger that a reversion to project modalities will erode what has already been achieved. Donors and the GOU should review aid strategies more systematically, with sector-by-sector attention to the best fit between different instruments. PGBS instruments themselves need to be adapted to achieve a balance between their role as a support for long-term development strategies, and the need to be responsive to performance. We make the following recommendations, addressed to both the GOU and donors, for the future design and management of PGBS:

Safeguarding long-term stability

R1 The GOU and IPs should try to ensure that the overall relative shift towards PGBS is maintained.

R2 IPs should develop safeguards against a rapid and destabilising withdrawal of PGBS.

R3 IPs should move towards a graduated response mechanism which provides credible incentives for performance and long-term predictability, protected from short-term political cuts.

R4 IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS.

R5 IPs should provide aid information in line with the MTEF and budget cycles and make rolling three-year commitments for GBS and other aid.

R6 The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies; and aid strategies should ensure that one instrument is not disproportionately more vulnerable than another to short-term cuts.

Design of aid and PGBS instruments

R7 The GOU needs to develop a more elaborate aid policy (beyond the order of preference of aid instruments given in the Partnership Principles), instead highlighting the roles, and the good practice design features, of different aid instruments.

R8 A set of operational principles and guidelines for PGBS should be developed, and IPs should adhere to these guidelines.

R9 In this context the balance between instruments in each sector should be reviewed.

R10 Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.

R11 The GOU and IPs should agree a common disbursement schedule for all PGBS (one or two tranches a year) and stick to it.

The focus of dialogue and conditions

R12 Continue to develop sector-style processes for strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, public sector reform, PFM), and in sectors without SWAp processes.

R13 The PRSC dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it.

R14 IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible.

R15 Continue to increase the profile of productive and private sector issues, including the expansion of growth-promoting initiatives.

R16 Continue to shift attention in the dialogue towards service quality and income generation.

Accountability

R17 The GOU and IPs should develop a strategy for building accountability systems to domestic stakeholders which reflect domestic democratic interests yet also satisfy IP demands.

R18 Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.

R19 Take care to ensure that policy processes provide room for the voices of domestic constituents, including Parliament as well as civil society, to be heard in the dialogue.

Capacity development and focus

R20 In the context of "sector" processes in cross-cutting areas such as PFM, decentralisation and public sector reform (see above):

(a) Develop capacity-building strategies for reform in these areas.

(b) Align TA/CB and other institutional support to these strategic plans.

R21 Increase the relative focus on systemic PFM issues at local government level.

R22 At sector level, shift the balance more towards building capacity of service providers, not just continued service expansion.

R23 Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity.

Using PGBS efficiently

R24 MFPED should reinvigorate the budget challenge to promote efficiency.

R25 The definition of pro-poor expenditures should be revisited regularly so they do not stagnate.

R26 Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives

R27 Assess Uganda's long-term absorptive capacity for aid, and investigate the efficiency of GOU sterilisation choices.

R28 Ensure that monitoring covers implementation activities and intermediate results as well as final outcomes.

Donor selectivity

R29 Donors should be sensitive to the role conditions can usefully play, and choose conditions where signals are needed and success is likely.

R30 Donors should improve their capacity to engage fruitfully in the dialogue, e.g. by:

(a) focusing on fewer sectors and issues of engagement;

(b) ensuring more consistency and coherence in policy across sectors;

(c) making more use of delegated cooperation;

(d) maintaining staff in post for longer;

(e) giving staff early training on the details of how Uganda's systems work;

(f) developing greater understanding of the political economy of reforms.

PART A: CONTEXT/DESCRIPTION

A1. Introduction and Conceptual Framework

Introduction

A1.1 Uganda is one of seven case studies in a joint evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but is also intended to be a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Uganda. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology for the multi-country evaluation are in the Inception Report (IDD & Associates 2005).

Objectives and Approach to the Evaluation

What is General Budget Support?

A1.2 Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. General Budget Support (in contrast to sector budget support) is not earmarked to a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, TA and CB, and efforts at harmonisation and alignment by the international partners (IPs) providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget; therefore they could also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent.

A1.3 A new rationale for general budget support emerged in the late 1990s, closely linked to the development of poverty-reduction strategies. So-called "new" or "Partnership" GBS focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions. The range of expected effects from Partnership GBS is very wide. The Terms of Reference (TOR)[1] for this study draw attention to:

- improved *coordination* and *harmonisation* among IPs and *alignment* with partner country systems (including budget systems and result systems) and policies;
- *lower transaction costs*;
- *higher allocative efficiency of public expenditures;*
- *greater predictability* of funding (to avoid earlier “stop and go” problems of programme aid);
- *increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems;
- *improved domestic accountability* through increased focus on the Government’s own accountability channels.

[1] The full Terms of Reference are annexed to the Inception Report (IDD & Associates 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the Terms of Reference:

> The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on more recent Partnership GBS (PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different IPs' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

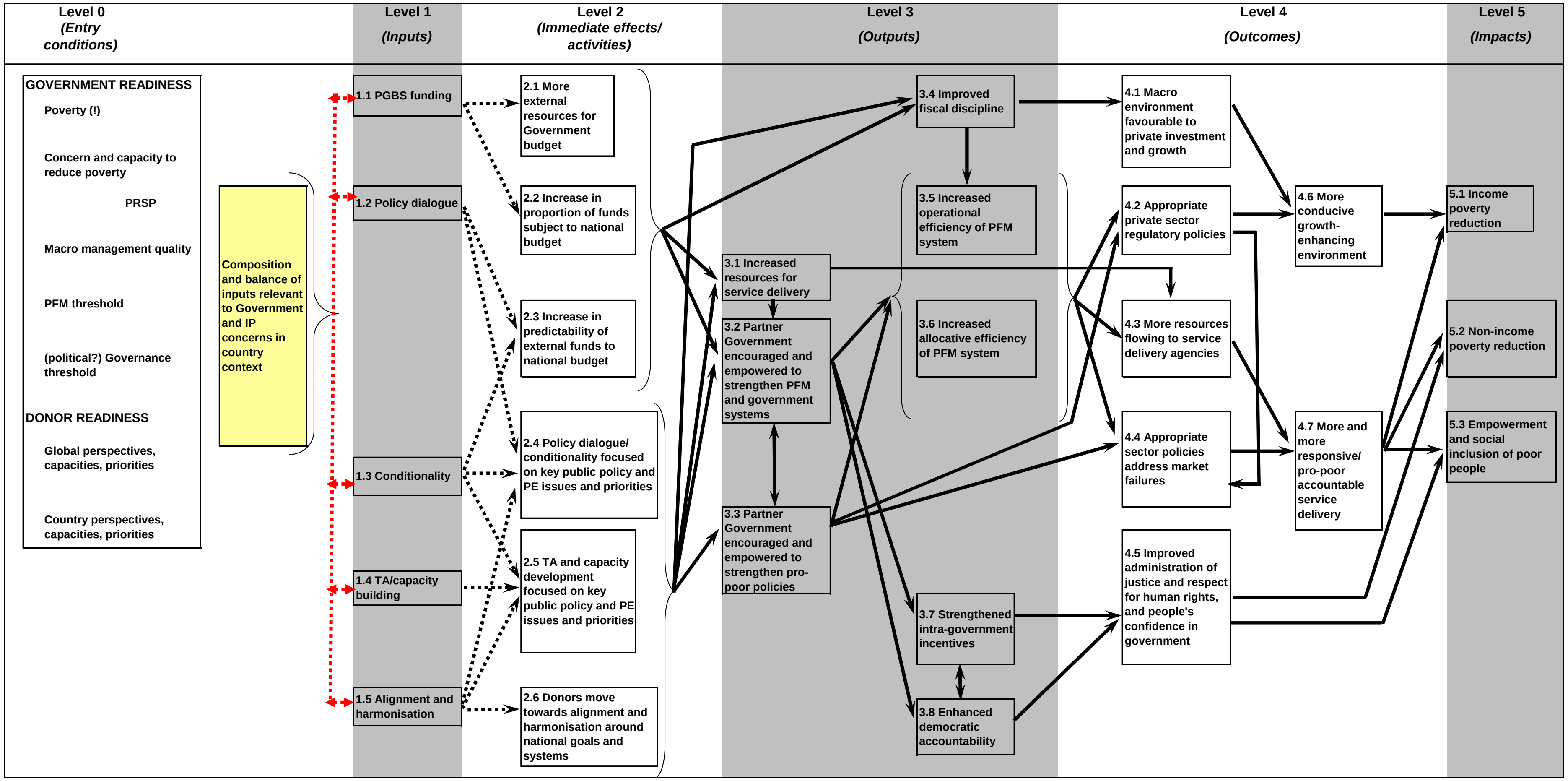
Evaluation Methodology

A1.6 The evaluation is based on a specially developed methodology which has been further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the OECD's Development Assistance Committee (DAC) – relevance, effectiveness, efficiency, impacts and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
  - Level 1: the inputs (funds, plus dialogue and conditionality, harmonisation and alignment, TA and CB);
  - Level 2: the immediate effects (activities);
  - Level 3: outputs;
  - Level 4: outcomes;
  - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effect: flow-of-funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals, and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a Causality Map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries, and all seven country reports follow the same structure based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used in addressing the evaluation questions posed in Part B of the report. This is explained in Annex 1A. The TOR require special attention to gender, environment, HIV/AIDS, and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Uganda. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Uganda.

Box A1.1: Structure of the Country Report

Executive Summary

Part A: Context/Description

A1. Introduction and Conceptual Framework
A2. The Context for Budget Support in Uganda
A3. The Evolution of Partnership GBS in Uganda

Part B: Evaluation Questions: Analysis and Main Findings

B1. The Relevance of Partnership GBS
B2. The Effects of Partnership GBS on Harmonisation and Alignment
B3. The Effects of Partnership GBS on Public Expenditures
B4. The Effects of Partnership GBS on Planning and Budgeting Systems
B5. The Effects of Partnership GBS on Policies and Policy Processes
B6. The Effects of Partnership GBS on Macroeconomic Performance
B7. The Effects of Partnership GBS on the Delivery of Public Services
B8. The Effects of Partnership GBS on Poverty Reduction
B9. The Sustainability of Partnership GBS

Part C: Cross-Cutting Issues

C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
C2. Public and Private Sector Issues
C3. Government Capacity and Capacity Building
C4. Quality of Partnership
C5 Political Governance and Corruption

Part D: Synthesis – Overall Conclusions and Recommendations

D1. Overall Assessment of PGBS in Uganda
D2. PGBS in Uganda – Future Prospects
D3. Summary of Conclusions and Recommendations

Bibliography

Annexes

1. Approach and Methods
2. Country Background
3. Aid to Uganda
4. Public Finance Management
5. Summary of Causality Findings
6 Decentralisation and PGBS in Uganda

The Evaluation in Uganda

A1.9 The Uganda study involved two field trips, a two-week inception visit in late November and early December 2004, followed by another three-week field visit in June 2005. A team of five people undertook the evaluation; four of the team were involved in both visits.

A1.10 Both field visits involved a combination of stakeholder interviews and data collection. The second visit involved rigorous collection of information to answer the evaluation questions in the EEF, which had been finalised and agreed in the Inception Report of May 2005 (IDD & Associates 2005). The majority of interviews were held with government institutions, donor representatives and civil society. All key cross-cutting ministries were visited, but, rather than attempt to visit all sector ministries, the team decided to focus on the agriculture and education sectors, although discussions were also held with stakeholders in the health sector. The Uganda study also involved an investigation into the effects of PGBS on decentralisation (Annex 6), and two district local governments, Mubende and Kibale, were visited during the second visit. The field visits were supplemented by a review of the substantial body of secondary literature on Uganda. See Annex 1B for further details on approach and methodology and a list of institutions consulted.

A1.11 The study benefited from focal points within the Budget Directorate of the Ministry of Finance, Planning and Economic Development, and the donor economists group. Two workshops were held, towards the end of each visit, attended mainly by government and donor officials. The first, in December 2004, introduced the evaluation objectives, the original methodology, and initial lines of investigation. The second, in July 2005, presented initial findings of the evaluation.

A1.12 The GBS Evaluation Steering Group provided feedback on both the Inception Report and the Draft Country Report. The final draft of the Report has taken these comments into account.

A2. The Context for Budget Support in Uganda

Overview

A2.1 In the 1960s, immediately after independence, Uganda's economy was vibrant and promising. However, the situation soon degenerated and Uganda suffered decades of conflict and misrule, during which the economy regressed and living standards declined. In 1986 the present National Resistance Movement (NRM) government took power, led by Yoweri Museveni. This ushered in a more peaceful period, during which there has been stability and growth. Museveni soon established good relations with the donor community. Over the last decade Uganda has been a pioneer in a number of developmental innovations: it was the first country to qualify for Heavily Indebted Poor Countries (HIPC) debt relief, its own poverty strategy anticipated the now-standard Poverty Reduction Strategy Papers (PRSPs), and it was the first recipient of a World Bank Poverty Reduction Support Credit (PRSC).

A2.2 Uganda was therefore a pioneer in the development of PGBS. In many respects it set a pattern that others have imitated. Recognisable PGBS began as early as 1998, with the creation of the Poverty Action Fund (PAF). Budget support, alongside HIPC debt relief, was notionally earmarked[2] to priority poverty-reduction programmes through the GOU budget, along with earmarked sector budget support linked to sector programmes in education and then health. The next important innovation was the introduction of the PRSC in 2001; this was full unearmarked GBS.

A2.3 However, recent concerns over governance, including corruption, human rights, and the pace of democratic reforms, have eroded Uganda's standing with its international partners (IPs), and have led to some bilateral donors cutting budget support disbursements.

A2.4 This chapter provides a brief background on poverty and the GOU's poverty-reduction strategy, macroeconomic management, public finance management (PFM), governance and aid flows. In doing so, it sets out Level 0 of the evaluation framework – the entry conditions and environment for continued provision of budget support.

Poverty and Poverty Reduction Strategy

Uganda's Economy and Poverty

A2.5 Economic growth has averaged over 6% over the last 15 years, and has been accompanied by significant reductions in income poverty. Headcount poverty fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003.

A2.6 Uganda has been making good progress towards many of the Millennium Development Goals (MDGs) (see Annex 2, Table 2A.2). There have been marked improvements in primary enrolment levels, girls' enrolment, and survival rates. There were improvements in rural safe water coverage, from 50% in 2000 to 60% in 2004 (Table 2A.1). Although the HIV/AIDS pandemic had a devastating impact on the Ugandan population throughout the 1990s, there

[2] For detailed explanation of different forms of earmarking, see Box B1.2 in Chapter B1 below.

were dramatic reductions in HIV prevalence from around 20% to below 10% in 2000 and further to about 7% in 2004.[3]

A2.7 Despite this progress, Uganda remains one of the world's poorest countries, ranked 144th out of 159 countries in the Human Development Index (2005). Gains have been undermined by high population growth, which averaged 3.4% a year between 1990 and 2002.[4] Aside from the success in combating HIV/AIDS, health outcomes have not been so favourable, with little improvement in infant and child mortality. HIV/AIDS is still the leading cause of death for the 15–49 age group, which has a major impact on the economically active portion of the population. There are significant regional variations in human development outcomes. The North is ravaged by war and its development lags behind the rest of the country, highlighting the significance of conflict. Inequality has been steadily increasing over the past 15 years.

A2.8 The population in Uganda remains largely rural at 87%, with the urban population only increasing by 1% of the population since 1992. Hence, Uganda's economy is also largely rural based, with the bulk of the workforce employed in agriculture, and this is where the vast majority of the poor are located. Despite this, monetary agriculture as a share of GDP has been steadily falling, as growth in agriculture has been below average, and now is below 40% of the economy. In agriculture's place, the shares of industry and services have been increasing, driven by increases in private sector investment and public expenditure. The public sector itself, fuelled by increases in aid, has raised its share of GDP from 16% in 1994 to 23% of GDP in 2003 (International Monetary Fund (IMF) International Finance Statistics 2004). As a landlocked country, Uganda has substantial natural trade barriers. Export volumes have increased substantially over the last decade, and despite declining commodity prices in the late 1990s, exports have slightly increased their share of the economy from 11% to 14% over the last decade. As exports and aid flows have increased, so have imports, which now amount to 28% of the economy (IMF International Finance Statistics 2004).

The PEAP, Uganda's Poverty Reduction Strategy

A2.9 In the early 1990s, while targeted interventions were carried out to alleviate the adverse social costs of structural adjustment,[5] concerns emerged about the need to address poverty issues more comprehensively, and address the fragmentation of aid. In 1995, after a forum on poverty attended by the President, a task force was established which developed Uganda's first comprehensive poverty-reduction strategy, the Poverty Eradication Action Plan (PEAP1), published in 1997. The PEAP identified four objectives or pillars (see Table A2.1 below). Within these pillars, four key priority poverty reduction programmes were highlighted: primary health care, water and sanitation, rural roads, agricultural extension, and crucially, universal primary education (UPE). Free primary education was a pledge by President Museveni in the 1996 presidential election campaign. While the PEAP was being prepared, so were sector strategies and investment plans in many of the PEAP priority sectors (education, roads, health, and water and sanitation).

[3] The prevalence rate reflects the combined effect of new infections and deaths of HIV-positive people.
[4] By the time of the 2002 census Uganda's population was 24.6 million. This rapid population growth means that over half the population is below the age of 15, and severely undermines per capita income growth.
[5] Under the Programme for the Alleviation of Poverty and the Social Costs of Adjustment (PAPSCA).

Table A2.1: Poverty Eradication Action Plan (PEAP) Objectives

PEAP1 and PEAP2	PEAP3
• Framework for Economic Growth and Structural Transformation. • Ensuring Good Governance and Security. • Directly Increasing the Ability of the Poor to Raise their Incomes. • Directly Improving the Quality of Life of the Poor.	• Economic Management. • Production, Competitiveness and Incomes. • Security, Conflict Resolution and Disasters. • Good Governance. • Human Development.

A2.10 The PEAP has been revised twice, and has become an increasingly important instrument for guiding sector policy and strategy, as well as GOU–development partner relations. The PEAP was first revised in 2000, through a far deeper and more consultative process, and was informed by the Uganda Participatory Poverty Assessment (MFPED 2000a), where efforts were made to solicit the views of the poor themselves as well as those sector strategies that had been developed. PEAP2 was adopted as Uganda's Poverty Reduction Strategy Paper by the World Bank and IMF, and Uganda qualified for further debt relief under the Enhanced HIPC initiative in 2000/01. The PEAP also incorporated a set of Partnership Principles, in which Government clearly expressed that budget support was its preferred aid modality. (The present version of the Partnership Principles is reproduced as Annex 3D.)

A2.11 The third iteration of the PEAP was initiated in 2003 and published in 2004; more sophisticated than its predecessors, it was arguably also more technocratic in preparation. PEAP3 put a greater emphasis on security and income generation, amid concern over bias towards the social sectors. PEAP3 also has a more comprehensive monitoring and evaluation (M&E) strategy, supported by a matrix for monitoring its implementation, which is intended as a focus for GOU–IP dialogue, as well as for use within government.

Macroeconomic Management

A2.12 Uganda has had an impressive track record of fiscal discipline and strong macroeconomic management. Throughout the evaluation period, inflation has been kept below 10%. Early in the 1990s, just prior to the evaluation period, there was a lapse, when government failed to curtail public spending despite a sharp decline in export earnings. The Ministry of Finance, with the support of the President, quickly reasserted control over aggregate public spending, through the introduction of cash budgeting and a Medium-Term Macroeconomic Framework (see Ddumba-Ssentamu et al 1999 for the best description and analysis of this period).

A2.13 Concurrently the GOU implemented a series of policies to liberalise the economy, which included the abolition of foreign exchange controls, liberalisation of commodity markets and reduction of trade barriers. Although these reforms were associated with IMF and World Bank structural adjustment programmes, they were owned and driven by staff within the Ministry of Finance, while politicians had been convinced of their merits following macroeconomic instability early in the decades. Strong leadership within the Ministry of Finance was key to the early successes.

A2.14 Reforms in the early 1990s emphasised the need to reduce the fiscal deficit through mobilising revenues and reducing the size of the public sector. However, from 1997/98 the fiscal deficit before and after grants increased rapidly due to increased grant and loan ODA inflows. Despite this rise in public expenditures, the authorities – the Ministry of Finance, Planning and Economic Development (MFPED) and the Bank of Uganda (BOU) – have maintained monetary and fiscal discipline by ensuring that aid flows have been sterilised.[6]

Public Finance Management

A2.15 Standards of PFM – and public administration generally – were thoroughly undermined by the decades of conflict. The 1990s saw systematic efforts to rebuild PFM systems (see Annex 4B for details). IP confidence in macroeconomic management was reinforced by progress in strengthening GOU expenditure management systems, and developments in planning and budgeting systems made it progressively easier for aid to be factored in to GOU plans and budgets. The Medium Term Expenditure Framework (MTEF), introduced in 1997/98, was a major step forward in improving the overall allocative efficiency of budget allocations, and their orientation towards the PEAP. This was progressively linked to planning at sector (and later district) level. At the centre of the budget process were sector working groups, made up of sector agencies along with donor and civil society representation, which were charged with developing medium-term budget strategies within medium-term sector ceilings. The introduction of output-oriented budgeting (OOB) in 1998 also helped focus resource allocations on results (Williamson 2003). PGBS thus began in a context where general PFM standards, though not necessarily high, were clearly improving, where MFPED was both strong and purposeful, and where the links between planning and budgeting were unusually well developed.

Governance

A2.16 Uganda has always been a difficult country to hold together (see Moncrieffe 2004 for an overview of political analyses). Museveni and the NRM argued that party politics had proved lethally divisive, and introduced a democratic but "no-party" system, enshrined in the 1995 Constitution. A key part of the NRM strategy was to build political support from local levels, and this influenced both the pattern of decentralisation and the political importance attached to poverty reduction. In 1996 presidential and parliamentary elections took place under the “no-party” system of politics. At the same time, much of the structure of government has evolved directly from the legacy of the colonial administration. The President is head of the executive, and is assisted by a cabinet of ministers; the Prime Minister is the leader of government business. The Parliament is the independent legislative arm of government. The Constitution also enshrines an independent judiciary.

A2.17 Decentralisation in Uganda, as in many countries, has been both politically and technically motivated. Democracy at the grassroots through Resistance Councils was a central part of Museveni’s "Movement" system from the outset. The decentralisation of basic services to local governments was also implemented on the premise that it would increase the efficiency of public expenditure and the responsiveness of services to local populations. Political and administrative decentralisation was reinforced in the 1995 Constitution and there is now a multi-tiered system of local government, with districts and municipal local governments as the main service delivery levels. Councillors are elected at the district, subcounty and village levels in rural areas, and in cities, municipalities, towns, divisions and cells in the urban authorities.

[6] For explanation and discussion of monetary sterilisation, see Chapter B6 below, especially Box B6.1.

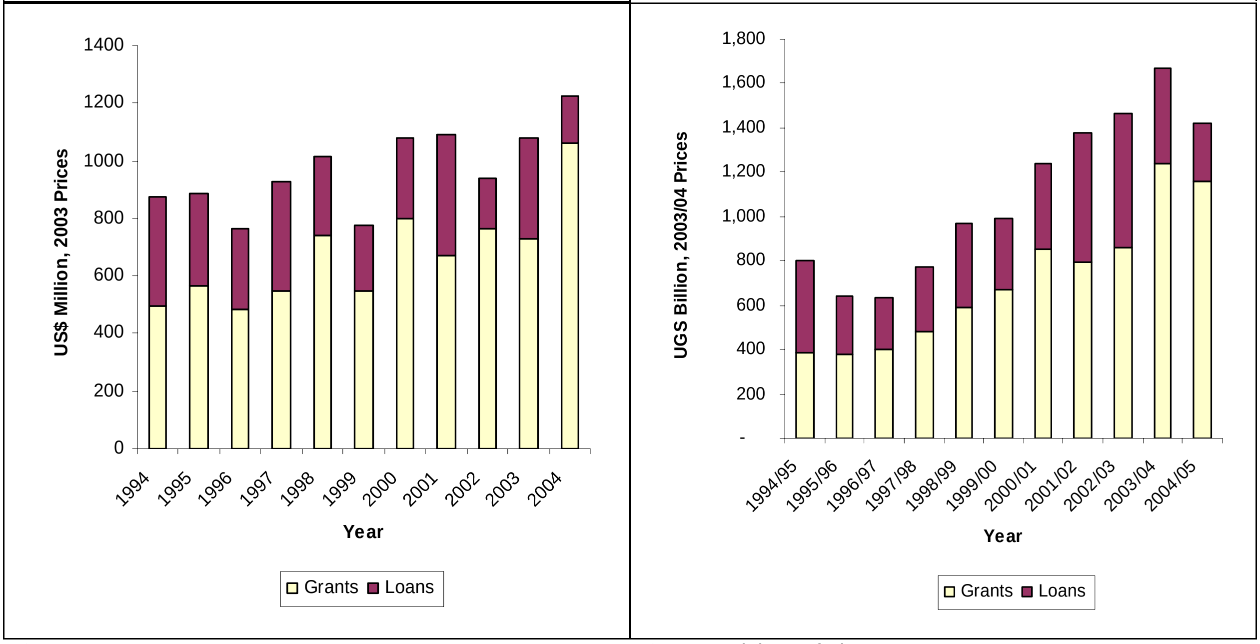
A2.18 In the 1990s, and early this decade, the international community was generally satisfied with the progress towards democracy, and governance in general. More recently development partners have expressed concern over the pace of political transition, and the failure of the government to tackle high-level corruption, which is perceived to be increasing. The persistence of the war in the North of Uganda, incursions of the army into the Democratic Republic of Congo (DRC), and the associated problems relating to human rights and an increase in defence spending have also been matters of increased concern. In July 2005 a referendum endorsed allowing representatives of political parties to stand in future elections, but the international community is unenthusiastic about the simultaneous constitutional amendment which has abolished term limits for the presidency. Events in the run-up to the February 2006 presidential elections have further brought into question the GOU's commitment to multi-party politics and a December 2005 ruling by the International Court of Justice finding Uganda guilty of looting and abuses in the DRC (International Court of Justice 2005). has worsened the deteriorating relationship between President Museveni and the international community.

Aid Flows

A2.19 Uganda is a highly aid-dependent country. Over the evaluation period, aid flows averaged 11% of GDP, and 50% of public expenditure. According to GOU statistics on-budget aid flows have increased from a low of USD 460m in 1995/96 to USD 800m in 2003/04, while according to OECD DAC figures, overall ODA has increased from USD 800m in 1994 to USD 1,060m in 2003 (OECD 2005). The OECD DAC figures show aggregate levels to be more erratic than the GOU budget figures, but the trend is consistent (see Figure A2.1). In real UGS terms aid flows have increased far more markedly, from UGS 600bn in 1995/96 to a high of over UGS 1.7 trn in 2003/04, which represents an increase of over 280%.

Figure A2.1: OECD DAC and MFPED Aid Data 1994–2003

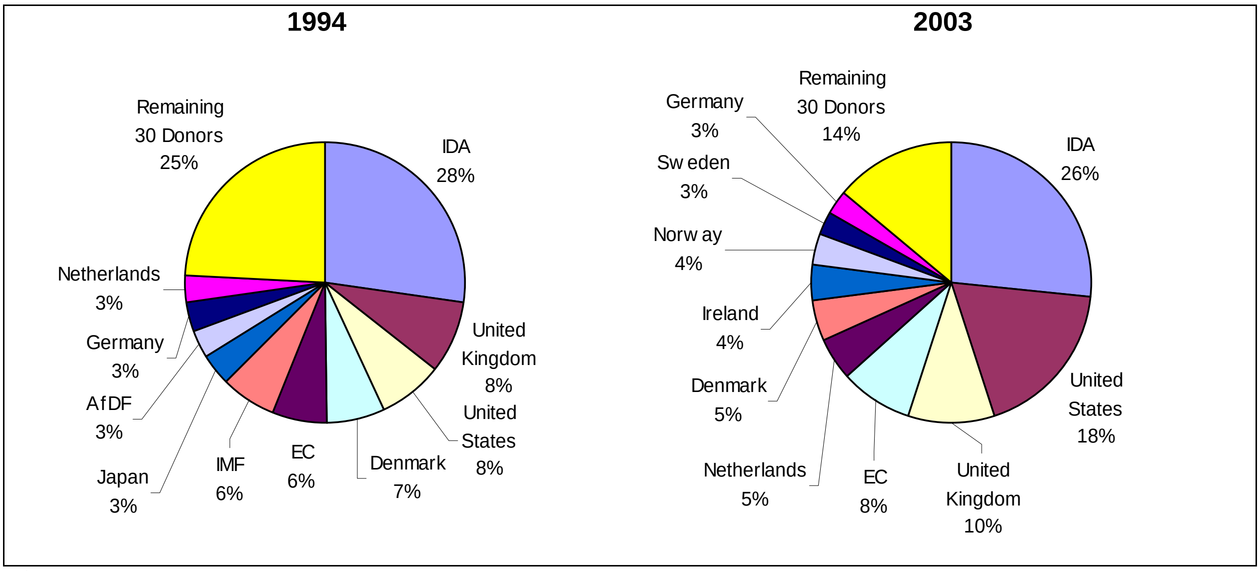
OECD DAC Reported Aid Flows 1994–2004	**MFPED Recorded Aid 1994/95–2004/05**



Source: OECD DAC. *Source*: Ministry of Finance.

A2.20 Throughout the period the aid environment has been very congested, with around 40 donors providing ODA each year to Uganda. However, most ODA is provided by a small group of donors, and these larger donors have been increasing their share of ODA to Uganda. In 1994 the 10 largest donors provided 76% of ODA, while in 2003 they provided 86% (OECD DAC). The largest donor has consistently been the World Bank, which has provided 25–30% of ODA to Uganda, with the EC as the second-largest multilateral donor. The two largest bilateral donors have been the UK and the USA, while the Nordic donors and Germany have consistently been the other major bilateral donors (see Figure A2.2).

Figure A2.2: Major Donors to Uganda in 1994 and 2003 (% of total ODA)



Source: OECD DAC.

A3. The Evolution of Partnership GBS in Uganda

Introduction

A3.1 In this chapter we set out the context from which budget support emerged, and the main features in the move to and evolution of the various types of budget support. Uganda, in particular, is a case where PGBS instruments have changed over time.

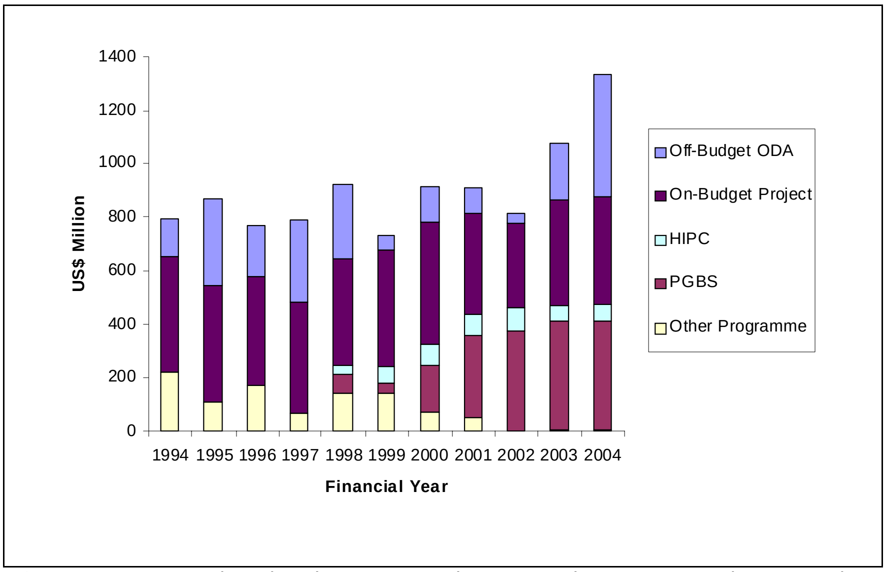
Box A3.1: Timeline of Key Events in the Evolution of Aid and PGBS

▼ New Constitution; Forum On Poverty; Multilateral Debt Fund		▼ PEAP1; MTEF		▼ First unearmarked GBS to Poverty Action Fund		▼ First PRSC (full GBS); Partnership Principles			
1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
			▲Poverty Action Fund; HIPC; sector GBS; first SWAP in Education; OOB		▲PEAP2; enhanced HIPC				▲ PEAP3; PRSC chair to Office of Prime Minister; PEAP Matrix

Trends in Aid Modalities in Uganda

A3.2 Uganda has always had substantial flows of programme aid, comprising a relatively large share of ODA (see Figure 3.1 below and the standard summary Table 3A.1 in Annex 3A). In the early 1990s, as Uganda attempted to stabilise the macroeconomic situation, donors provided substantial levels of programme aid absolutely and relative to other forms of aid. In 1994 programme aid amounted to 43% of on-budget aid flows. The bulk of programme aid took the form of balance of payments support, including World Bank and IMF structural adjustment lending. Ex ante conditions were placed on structural adjustment support, associated with the liberalisation and privatisation agenda, which Uganda successfully implemented, largely because of political support to those reforms.

Figure A3.1: Trends in Aid Modalities in Uganda



Source: OECD DAC (2006) and MFPED Development Assistance Reports (1994–1999) and Budget Performance Reports (2000–2005) See Annex Tables 3A.1 and 4A.1.

A3.3 Throughout the 1990s project support was the dominant modality for providing aid. Up until 1997, project aid remained fairly stable in real terms. In the first half of the 1990s the majority of project support was oriented towards productive sectors, including infrastructure, agriculture and energy. In the early 1990s social interventions in the form of project support were largely focused on alleviating the costs of structural adjustment. From the mid 1990s, as the focus of attention shifted towards broad-based poverty reduction, there was a shift towards mainstream social services and other sectors, including public administration. However, before the move towards sector wide approaches in the late 1990s, project aid was largely uncoordinated.

A3.4 As the structural adjustment programmes were successfully implemented and export earnings recovered, the need for balance of payments support receded, and consequently the amount of programme aid was declining at the beginning of the evaluation period. The decline in balance of payments support was followed by increased debt relief from bilateral donors through the Multilateral Debt Fund (MDF), which corresponds with a recovery of programme aid from 1995/96 to 1997/98. Through the MDF, Nordic donors supported foreign debt repayments, which helped increase the resources available to government to allocate to social sectors. Against the background of this support, and with continued increases in domestic revenues, the Government was able to launch major new policies at the heart of PEAP1 such as UPE in 1997. In addition to Education, reform processes and sector wide approaches were also established in Roads and Health. This involved the development of sectoral strategies and plans, and efforts to align donor assistance towards them.

A3.5 In 1998 Uganda first benefited from HIPC debt relief, and between 1998 and 2000 there was a rapid increase in aid flows, associated with increasing donor confidence in GOU reforms, and the emergence of PGBS. Although HIPC helped to maintain the share of programme aid above a quarter of aid flows, project aid continued to be the dominant aid modality, and increasing coherence in projects was achieved through sector wide approaches.

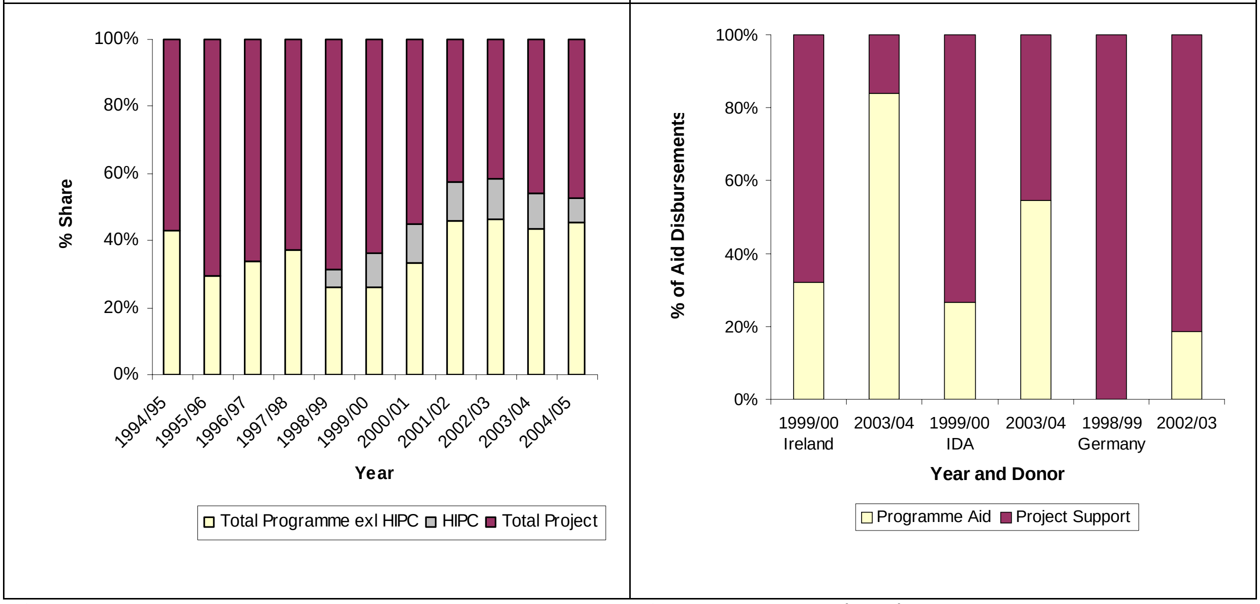
A3.6 After a decade of successful macroeconomic and public sector reforms and associated poverty reduction there was a very positive relationship between the GOU and its international partners (IPs) in 2000. Donors quickly bought into the paradigm of providing budget support linked to the implementation of sector strategies and the PEAP. Therefore between 2000 and 2003 there was a large absolute and relative increase in programme aid as an increasing number of donors shifted to using budget support, combined with a stagnation in UGS terms of project support. Overall aid flows continued to increase substantially and by 2002 programme aid was well over 50% of on-budget aid flows. Since 2002, levels of budget support have been relatively flat as a share of total aid, although the value and share of HIPC has begun to decline. In an environment of global health initiatives and renewed interest in road construction, the share of project aid has begun to increase again.

A3.7 Figure A3.1 shows substantial flows in off-budget aid. Although this may be due to the differences in reporting to GOU and the OECD DAC, there were substantial off-budget flows between 1994 and 1998, which declined significantly between 1998 and 2002. This indicates increasing comprehensiveness of the budget, which may have been a result of initiatives such as the MTEF and sector wide approaches. However, since 2002 there appears to be a large increase in off-budget aid flows again. The reasons behind this are unclear.

A3.8 While overall there has been a decisive relative and absolute shift towards budget support since 1998/99, there is a wide variety of approaches among donors in terms of their mix of aid instruments (Figure A3.2). Some donors such as Ireland and the UK have moved predominantly to programme aid, while other bilateral donors, such as Germany, provide only a small portion of their ODA as programme aid. The World Bank has shifted emphasis towards programme aid, but it still provides almost half its support through projects.

Figure A3.2: Mix of Aid Instruments in Uganda

On-Budget Aid	Differing Mixes Within Donors



Source: MFPED. *Source*: Donor Questionnaire.

Innovations in Aid Management and the Evolution of PGBS

A3.9 Prior to PEAP1, Uganda's aid was fragmented and poorly coordinated, despite generally positive relationships with the donor community. The preparation of the first PEAP was, in part, a reaction to this problem. There was a realisation that the aid architecture needed to be oriented towards the implementation of the PEAP, and the latter half of the 1990s saw the Uganda government take various innovative steps in aid management, such as the introduction of sector wide approaches (SWAps), the Poverty Action Fund, and the development of the Partnership Principles in the context of PEAP2. In combination, these three initiatives have helped provide the frameworks within which GBS has evolved in Uganda.

Aid Management in the Context of Sector Wide Approaches and the MTEF

A3.10 The first area was the use of SWAps to align donor and budget resources toward sector strategies. The MTEF and sector working group process was used as a means of orienting all sector resources towards these strategies, including donor project funding. Joint sectoral review processes were an important element of these SWAp processes in starting a policy-focused dialogue between donors and government, as well as other sector stakeholders, including civil society. At these reviews, progress in sectoral reforms and implementing sectoral plans was discussed, and agreements reached on how best to implement sector strategies. Donors increasingly began to organise themselves into sector groups, and agree common positions on various policy issues in the sector dialogue with the GOU.

A3.11 This dialogue and the budgetary processes helped donors align their projects towards sector strategies. Also in the education sector and later the health sector, they provided a platform for donors to start to provide more flexible support for these plans in the form of notionally earmarked sector budget support. DFID was an early mover, providing budget support to the Education Sector Investment Plan in 1998, while Ireland and the Netherlands supported classroom construction through the Schools Facilities Grant. However, in the roads sector the dominant financing instrument remained project support.

The Poverty Action Fund and Notionally Earmarked Budget Support

A3.12 The second important innovation was the introduction of the Poverty Action Fund (PAF), when Uganda first benefited from HIPC debt relief in 1998. There were two main reasons for the introduction of the PAF. The first was to demonstrate to international and domestic stakeholders that savings from debt relief were being channelled as additional resources to priority PEAP sectors, to allay fears that the funds would be misused. In addition, HIPC relief made Uganda's debt situation officially sustainable, but it did not want to lose the support it was already receiving from Nordic donors for foreign debt repayments under its Multilateral Debt Fund (MDF); the PAF was intended as an alternative channel for these funds too.

A3.13 The Poverty Action Fund ensured that an amount equivalent to HIPC and donor resources was transferred as additional allocations to the "pro-poor sectors". The government identified key expenditure lines in the budget, consistent with these sectors. In the "PAF budget", the additional resources from HIPC and donors were matched with equivalent increases in budget allocations to these budget lines, above the base year of 1997/98 (the year before the PAF was created). The PAF budget allowed the Ministry of Finance to demonstrate the additional nature of the debt relief and donor resources, and donors were able to "see" the impact their resources were having on budget allocation. The majority (about 75%) of the additional PAF resources were allocated to local governments as earmarked, conditional grants. The PAF was not a separate fund, but is a subset of the overall MTEF and GOU budget.

A3.14 The government also used the PAF as a mechanism to improve budget management and enhance the accountability of expenditures. The government guaranteed that all budgeted resources would be made available in full for disbursement to PAF programmes, regardless of resource shortfalls, and committed itself to increasing the accountability and transparency of PAF expenditures. In order to demonstrate that funds were being disbursed in full, releases to programmes were published and sectors were required to report quarterly on actual progress in the implementation of PAF programmes. Quarterly PAF review meetings were held in public to discuss PAF performance, to which civil society organisations, donors and the press were all invited, alongside representatives from government agencies. 5% of all PAF resources were allocated specifically to improving monitoring and accountability, in order to enable central government institutions to carry out their mandate for monitoring effectively.

Box A3.2: Elements of the Poverty Action Fund in 1997/98

- **Special treatment** – the PAF identified and gave special treatment to specific pro-poor sectors/sub-sectors/programmes in the budget.
- **Matching resources to expenditures** – a PAF table matched specific resources from HIPC, donors and the government to the budget allocations for PAF programmes.
- **Additionality of resources** – PAF resources were shown as additional to the government's own budget allocations to PAF programmes in the 1997/98 budget.
- **Protection of disbursements** – PAF programmes were protected from cuts during budget implementation.
- **Reporting and transparency** – there were specific requirements for the government to report on disbursements on PAF programmes, and progress in implementation. Reports were made public and discussed in open quarterly meetings, where civil society, the press and donors were present.
- **Monitoring** – 5% of PAF funds were set aside for enhanced monitoring and accountability.

A3.15 Although this was not an original aim, the PAF became instrumental in the donors' shift from project to budget support. The PAF demonstrated the government's commitment to poverty reduction through the allocation of the budget to poverty-oriented activities. The PAF provided donors with a level of comfort that the overarching MTEF did not provide – in terms both of allocation and protection of the PAF, and also of transparency and accountability. Notional earmarking was an attractive prospect for donors, as it made their funding visible, inasmuch as MFPED could demonstrate a shilling for shilling increase in the overall PAF budget or to a budget line which the donor was interested in funding. MFPED could also demonstrate that these funds were disbursed. This enabled donors to provide support for the government budget, earmarked specifically for PAF programmes in general (e.g. the Netherlands and the EC) or to sectors within it (such as the Irish and classroom construction, and the Belgians with primary healthcare), or a combination of both. These budget support programmes tied themselves to the commitments made by the GOU under the PAF, and also, where relevant, the respective SWAp processes.

Partnership Principles and Unearmarked General Budget Support

A3.16 The third innovation was the introduction of a set of Partnership Principles in 2001 in the context of the second iteration of the PEAP, and the move by the World Bank and DFID to unearmarked General Budget Support. In this influential document, the GOU set out a framework for managing dialogue and financial aid. Most importantly, the partnership principles clearly stated that the GOU's preferred form of aid was unearmarked GBS, followed by budget support earmarked to the PAF, then sector budget support and finally project support.

Box A3.3: Summary of Partnership Principles (PEAP2 2001)

Government will:

- continue to increase its focus on poverty eradication
- continue with increased tax effort
- assume full leadership in donor coordination
- decline any offers of stand alone donor projects
- strengthen monitoring and accountability
- continue to improve transparency and combat corruption
- continue to strengthen district capacity
- develop comprehensive, costed and prioritised sector wide programmes, eventually covering the whole budget
- further develop participation and coordination of all stakeholders (including parliamentarians)
- strengthen capacity to coordinate across government

Donors will:

- jointly undertake all analytical work, appraisals, reviews
- jointly set output/outcome indicators
- develop uniform disbursement rules
- develop uniform and stronger accountability rules
- ensure all support is fully integrated into sector wide programmes and is fully consistent with each sector programme's priorities
- continue to increase the level of untied sector budget support
- increase the level of delegation to country offices
- abolish topping up of individual project staff salaries
- end individual, parallel country programmes and stand alone projects
- progressively reduce tying of procurement

Source: PEAP Volume 3, Annex 1 (2001).

Note: the full 2003 version of the Partnership Principles is reproduced as Annex 3D.

Types, Preferences and Approaches to PGBS

A3.17 During the PEAP1 period, budget support evolved in tandem with SWAps and the PAF, without an explicit government policy on budget support, but, through its action, the GOU was clearly a leader and driver for increasing budget support. IPs have used one or a combination of three main approaches, all of which meet the definition of PGBS for this evaluation:[7]

- **Sector Budget Support** – budget support notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the PAF. This represents the largest number of budget support instruments, and has been the most popular type of budget support in terms of the number of donors that have contributed, with 13 having used the instrument up until 2004. Between 1998/99 and 2003/04 approximately USD 509m had been disbursed using this form of budget support.
- **PAF General Budget Support** – budget support that is notionally earmarked to the PAF as a whole, and not individual sectors. Five donors have taken this approach to budget support, and approximately USD 145m has been disbursed using this modality between 1998/99 and 2003/04.
- **Full General Budget Support** – full General Budget Support, which is completely unearmarked. Six donors have used full GBS as an instrument, and this includes the World Bank's PRSC. Despite the small number of full GBS donors it represents the largest amount of GBS, with USD 713m being disbursed between 1999/2000 and 2003/04.

Differing Perspectives and Approaches of Donors

A3.18 As Figure A3.1 suggests, different donors have used budget support in different ways. Some donors such as Ireland, Sweden, Ireland, Norway and DFID have progressively moved almost completely away from project support into budget support.[8] Other donors have made substantial but not complete shifts towards budget support (e.g. the World Bank, EC). Others appear to be using PGBS either as a means to try out the instrument, or to engage in the policy dialogue, while maintaining a large portfolio of projects (e.g. Germany and Denmark). Within the three generic categories of PGBS there are different approaches, and many donors are using a combination of Sector and full or PAF GBS. Some just use full PGBS – e.g. DFID – while the majority of donors involved in PGBS are solely involved in sector budget support. In addition, some donors have recently combined Sector and full/PAF GBS into a single instrument. This means that for some, PGBS has been an additional way of providing aid, over and above projects, while for others PGBS has represented a clear paradigm shift, in which they have moved away from projects.

A3.19 Nevertheless, a number of donors have remained outside the PGBS framework. Donors such as USAID, now the largest bilateral donor, and JICA have been unable to move towards PGBS because of their own internal procedures, but they have remained very much part of the sector dialogue processes.

A3.20 In aggregate there has been a clear relative shift towards budget support by donors, although projects have continued to grow. Donors saw both SWAps and the PAF as key initiatives which facilitated their move to PGBS. The existence of clear policies and strategies combined with the fiduciary assurances provided by the MTEF and the PAF made it easier for donors to justify the move towards budget support. Maturing sector processes, alongside the

[7] See Chapter B1, Box B1.2 for a fuller explanation why notionally earmarked "sector budget support" is treated as PGBS.

[8] Although both provide some institutional and capacity-building support in the form of projects.

relatively open consultative budget process, helped the move towards GBS – and for some it was a transition from sector to full GBS (e.g. Ireland, Norway), while others were able to move directly into full GBS (e.g. Germany).

A3.21 However, over the last three years, governance issues have become more prominent in the relationship between development partners and the GOU. The question of political transition, and the run-up to the 2006 presidential elections, is marking a tense phase in donor–GOU relations. Ireland moved its budget support from full GBS to PAF GBS in 2003/04 (Mokoro Ltd 2003). Later, in 2005, three bilateral donors – UK, Ireland, and Norway – reduced budget support disbursements over what they saw as a lack of progress in political transition. However, these cuts in disbursements have yet to translate into a shift away from budget support as a modality.

A Clear Domestic Preference for GBS

A3.22 The process during which the Partnership Principles were developed culminated in a clear expression of the GOU's preference for budget support, and unearmarked GBS in particular. This strong preference is reiterated in PEAP3, which also gives a cogent explanation of why budget support is preferred (Box A3.4 below). However, there is now a more nuanced view within the Ministry of Finance, which still sees a role for projects, especially in the areas of institutional capacity building and policy reform.

Box A3.4: Why GOU Prefers Budget Support

…providing aid in the form of budget support enhances ownership of the budget and enables a more internally coherent budget to be formulated, in which scarce budgetary resources are allocated to the government's own strategic spending priorities and the relative costs and benefits of competing expenditure demands. Projects lead to a fragmentation of the budget, with decisions about donor project expenditure divorced from national budget process and taken without proper consideration of the relative merits of all competing expenditure demands. Donor-funded projects often involve far higher unit costs than projects funded from the GOU budget and consist of much lower priority expenditures, because they are heavily influenced by donor priorities.

Source: PEAP3 (2004) p. 211.

A3.23 Those sectors that were in the PAF appreciated budget support, because it meant that they had preferential budgetary treatment in terms of allocation and disbursement. Those sectors which were early to develop SWAps, in particular health and education, benefited doubly from preferential budgetary treatment in the PAF, and from notionally earmarked sector budget support. This meant that rapidly increasing flexible resources were made available to sectors reliably, and understandably this was very popular among sector agencies, even if much of the resources were being channelled to local governments.

A3.24 The prospect of increased on-budget resources also provided an incentive for other sectors to develop strategies and SWAp type processes, and thereby attract sector budget support. However, as we shall describe later, the commitment of additionality of sector and PAF budget support was withdrawn in 2001, which meant those sectors which developed SWAps later on, such as the Agriculture and Justice, Law and Order sectors, benefited less in terms of resources, and this resulted in some disillusion among stakeholders in those sectors.

PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

B1. The Relevance of Partnership GBS

How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?

Introduction

B1.1 This chapter is concerned with Levels 0 and 1 of the Enhanced Evaluation Framework (EEF). It describes the objectives and nature of the various PGBS inputs and the relevance of those inputs to the PGBS objectives, and the broader Ugandan context described in Part A. In the context also of the different types of GBS in Uganda, it looks at the implicit entry requirements for PGBS, and whether these have changed over time.

B1.2 There are no causal hypotheses to test in this chapter and, as such, there are no attribution challenges. However, the term "design" of PGBS needs to be treated with care: there are many different PGBS instruments, with significant variations in their design; different participants interpret some aspects of the design differently; and the designs have evolved significantly over time and been adjusted by GOU and different IPs to fit changing circumstances or perceptions.

Relevant Facts: The Design of PGBS[9]

Objectives and Intent of PGBS

B1.3 Early PAF and sector budget support was intended to provide additional resources to specific PAF and sector budget lines, and earmarked accordingly. But there has been a trend away from funding specific budget lines towards funding whole sectors and sub-sectors, and objectives of these narrower budget support instruments have become more closely aligned with overall sector strategies.

B1.4 The inaugural PRSC in 2001 was the first full PGBS instrument with an explicit objective to support Uganda in the implementation of the Poverty Eradication Action Plan as a whole. Although the stated objectives of the PRSC were not directly drawn from PEAP2, they were explicitly supporting the PEAP pillars (see Box B1.1). Subsequent full PGBS instruments have also been grounded in PEAP objectives (for details, see Table 3C.1 in Annex 3C). As well as supporting Uganda's development objectives, there are intermediate objectives concerning the quality and efficiency of aid. Thus, in addition to strengthening government processes and systems, other explicit objectives emerged for the PRSC as it became clear that other donors wished to take part in the PRSC process: to replace concurrent donor systems with one, to improve predictability of resource flows, and to reduce transaction costs.

[9] A more detailed description of the design of PGBS is provided in Annex 3C.

Box B1.1: PRSC Objectives

Early PRSC objectives were aligned with the PEAP pillars:

- *supporting the efficient and effective use of public expenditure (under PEAP pillar 1);*
- *improved governance through cross-cutting public sector reforms (under PEAP pillar 2);*
- *improved delivery of basic services (under PEAP pillar 3).*

In 2002, for PRSC2, an additional objective was added, to ensure all pillars of the PEAP were covered:

- *promotion of an enabling environment for rural development (under PEAP pillar 4).*

Level and Nature of PGBS Funding

B1.5 There was little increase in programme aid at the time of the introduction of the PAF in 1998, as this represented a switch from MDF funding, rather than an absolute increase. However, after the introduction of full PGBS the amount of programme aid (excluding HIPC) being provided to Uganda increased rapidly from the base of USD 150m in 1999/00 to USD 350m in 2001/02, and further to USD 400m in 2003/04 (see Annex 3C, Figure 3C.1). Of this, PGBS has increased from 26% of programme aid in 1999/00 to 99% in 2004/05. If one includes HIPC, in relative terms programme aid as a proportion of total on-budget aid receipts has increased from 36% in 1999/2000 to 56% in 2001/02, and since then it has stayed above 50%. Out of all the seven evaluation countries Uganda has enjoyed by far and away the greatest share of aid as PGBS. Between 2001 and 2004 PGBS averaged 37% of total ODA in Uganda compared to 16% in Burkina Faso, 15% in Rwanda and 12% in Mozambique, the three nearest countries in the evaluation.

B1.6 By 2003/04 there were 13 different donors providing PGBS, and these donors were operating 34 different budget support programmes, of which 25 were sector budget support programmes. (Box B1.2 explains why we have included notionally earmarked sector budget support in the evaluation.[10]) In value terms, PAF and full PGBS instruments dominate: they accounted for 68% of PGBS funding between 2000/01 and 2003/04, of which 56% was full GBS and 12% PAF GBS. Despite the large number of operations, sector budget support accounted for only 32% of budget support disbursements.

Policy Dialogue and Conditionality

B1.7 Donor involvement in the dialogue around the budget process started before the movement towards SWAps and PGBS (see Annex 3C, Table 3C.2, for GOU commitments and donor conditions for the PAF). In the context of budget support, this budget dialogue has become increasingly important for IPs involved in all types of PGBS. There are two main levels at which dialogue takes place: at the national level through the consultative budget process and at the sector level through a particularly well developed series of sector working groups (see Box B1.3). The donor economists group coordinates the overall response of development partners during the budget process, while individual sector groups are involved at the sector level.

[10] Further details on earmarking and disbursement of PGBS funding can be found in Annex 3C.

Box B1.2: Is Notionally Earmarked Sector Budget Support GBS?

For this evaluation we have considered notionally earmarked sector budget support as a form of GBS. The difference between real and notional earmarking is as follows:

- With *real earmarking,* spending on pre-agreed budget lines precedes the disbursement of sector budget support.
- *Notional earmarking* involves justifying the allocation of budget support against pre-agreed budget lines, but disbursement is against a pre-agreed schedule, and not a reimbursement of actual expenditures.

In Uganda, sector budget support is justified against budget lines in the Poverty Action Fund and in some cases sector MTEFs (e.g. education). However, tranches are released on the basis of successful completion of undertakings in sector reviews, and are not a reimbursement of actual expenditures. Thus in Uganda sector budget support is only notionally earmarked, and we have therefore considered it as GBS.

What makes notional earmarking exceptional in Uganda between 1998 and 2001 is that GOU made an explicit commitment to additionality – that sector budget support would result in, at least, a matching equivalent increase in budgeted expenditures for that sector. HIPC and PAF budget support was similarly guaranteed to result in a matching increase in overall PAF budget allocations. This does not mean that donor earmarking over-rode GOU preferences. The GOU regularly increased its PAF expenditures by more than the amount of notionally earmarked funding; the additionality guarantee was an indication that GOU priorities for the additional resources were in line with those of the donors.

However, this guarantee of additionality was withdrawn in 2001, as the GOU has decided to limit increases in public expenditure due to concerns over the deficit. However, in order to demonstrate continued prioritisation of PAF expenditures in the budget the GOU undertook, at least, to maintain PAF expenditure allocations as a share of the budget. Since then, sector budget support has not had a guaranteed influence on sector budget allocations. The change ensured that the GOU was in control of on-budget public expenditure decisions; this position was later reinforced by the decision to incorporate project aid within MTEF ceilings (see ¶B2.5). Nevertheless (like fully unearmarked GBS) sector budget support is provided in a context of detailed dialogue over the composition of public expenditures, and in practice PAF expenditures have continued to rise by more than the increase in notionally earmarked funds.

Box B1.3: Sector Working Groups

Sector Working Groups (SWGs) are central to both the sector review processes and the planning, MTEF and budgeting process. They are made up of representatives of spending agencies within the sectors and other stakeholders from civil society and IPs. SWGs are required to prepare contributions for the budget framework paper which set out the medium-term budget strategy for the sector. These contributions set out measurable performance targets for the sector, and resource allocations between agencies in the sector. These groups are required for all sectors, whether or not they have fully fledged sector review processes.

B1.8 Donor–government dialogue around full PGBS takes place at the PRSC Steering Committee (SC), which was formed in 2000, and chaired by the MFPED until 2004, after which the chair was moved to Office of the Prime Minister (OPM). On the donor side, the World Bank and those donors providing or considering providing full GBS took part. This often meant large donor contingents which outnumbered government representatives in meetings, although the size of missions has reduced in recent years. Until 2004 the scope of the dialogue was guided by a PRSC policy matrix, after which the implementation matrix from the third PEAP has been used. (See Annex 3C, Table 3C.3, for an outline of the scope of PRSC/PEAP matrices over time.) There are also thematic donor groups on public finance management, public sector reform, decentralisation and governance. Again these groups are not limited to the IPs supporting PGBS, although they tend to dominate. These groups meet more often than the PRSC Steering Committee, and are made up of representatives of donor agencies and sometimes government officials (see Annex 3C for further details of PRSC dialogue). A governance matrix was developed to facilitate governance discussions as the PRSC matrix did not include such issues beyond corruption; however, this is now being replaced in the dialogue by the "good governance" pillar in the PEAP3 matrix.

B1.9 PGBS conditionality centres on monitoring the implementation of actions from the PEAP/PRSC matrix, and focuses on the annual agreement of a smaller set of prior actions (see Annex 3C Table 3C.3 for an outline of PRSC prior actions). These prior actions have to be met before PRSC funds are released,[11] and most full GBS instruments are tied to this. PRSC conditionality is linked to sectors by including "one-liners" which refer to satisfactory conclusions of review processes in key sectors which themselves have their own systems of dialogue. Disbursement of sector PGBS funding is usually tied to successful implementation of the concerned sector reviews, but sometimes to the PRSC as a whole.

Harmonisation and Alignment Inputs of PGBS

B1.10 Full PGBS instruments have relied on government systems for reporting and monitoring. Although the government had made strides in improving monitoring and evaluation, and used information more in decision-making, those systems were weak and poorly coordinated in 2001. Where those systems have been lacking, support has been provided to the GOU by donors to develop them (see Annex 3C for details). The introduction of full PGBS did not seek to create new mechanisms for monitoring sector performance, choosing to rely on existing sectoral arrangements. The only additional institutional arrangements that were added as a result of the introduction of full PGBS was that of the PRSC SC, and the GOU was required to report on progress against undertakings in the PRSC matrix.

B1.11 Harmonisation has been more difficult and has been somewhat less successful. Most donors have signed up to the Partnership Principles, and take part in the PRSC discussions, agreeing to prior actions, and using government reporting systems. Donors are working well together in sector and thematic groups, and are able, more often than not, to agree common positions on policy issues. In addition, some full GBS donors have delegated other donors to represent them in dialogue, or have withdrawn from some sector dialogue completely. However, there is a distinct lack of harmonisation with the budget cycle in terms of planning horizons, timing of commitments, and disbursement procedures. This reflects donors' differing administrative procedures, but also the fact that they have different "red lines", and reserve the right to make independent decisions about disbursement, even if they can agree common policy positions.

PGBS Technical Assistance and Capacity Building

B1.12 TA and CB are the least well developed elements of PGBS design, when compared to the inputs envisaged in the EEF. Little new TA and CB is explicitly mentioned in unearmarked GBS programme documentation itself. However, both TA and CB have always been very much part of the plans of development partners who provide PGBS. Many donors therefore provide parallel TA and CB projects or funds.[12] For example, the PRSC programme document explicitly mentions the fact that "IDA expects to continue with self-standing capacity-building projects",[13] and continues to provide technical support through existing mechanisms to PER processes. DFID has a strategic fund whose purpose is to "provide one-year financial or technical support

[11] See Annex 3E for the current operational principles on PRSC prior actions.
[12] Again, Annex 3C provides further details of TA and capacity-building initiatives, while Annex 4B reviews PFM capacity.
[13] Page 25, Presidents Report on PRSC1, World Bank 2001 (World Bank 2001d).

to increase the effectiveness of budget support, by targeting the strategic dialogue associated with it",[14] and other donors often provide flexible short-term TA support to policy processes.

B1.13 To date Uganda has developed no comprehensive, overarching capacity-building strategy or plan to which capacity building can be linked. However, this is an intended activity set out in PEAP3. At a cross-sector level there now does exist a capacity-building policy for local government, and efforts have been made to professionalise the accounting cadre within government. Within the various sectoral strategies there are provisions for capacity building. Capacity building is therefore provided in the context of ongoing sectoral and cross-cutting programmes and coordination mechanisms. To the extent that sectoral strategies are aligned with the PEAP it can be said that capacity building is also aligned.

Assessment against Evaluation Criteria

Relevance to the Context

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.		
Level: **	Trend: =	Confidence: ***

B1.14 Overall the many different designs have been moderately responsive to the specific conditions of Uganda. The emergence of PGBS in Uganda was not the importation of a recipe from elsewhere, but a response to the specific combination of circumstances in Uganda that was described in Part A – notably, a government that was congenial to the IPs, had a genuine concern and strategy for poverty reduction, had achieved macroeconomic stability and discipline, was strengthening PFM, and provided an opportunity to use both HIPC resources and what had previously been debt relief to support the expansion of basic government services. However, the present design was not fully pre-planned: much of it has been reactive to particular issues as they have arisen. PGBS design has evolved alongside government reforms and the increased sophistication of the PEAP, budget and sector processes. While the design by and large reflects a technical consensus about the requirements for implementation over much of the PEAP at the sectoral level, it can be criticised for not adequately addressing broader economic issues beyond macroeconomic stability or cross-cutting delivery issues. Difficulties experienced in the governance areas suggest that some IPs' initial assessments of the political context may have been superficial or over-optimistic.

Macroeconomic management

B1.15 The fact that macroeconomic management is not a major part of the PGBS dialogue (it is largely conducted with the IMF) reflects the comfort donors have in the GOU's macroeconomic management. However, sound macroeconomic management is inherent in the PGBS design, as most donors explicitly (as part of their agreement) or indirectly (through requiring a successful PRSC process) require the GOU to remain on track with the IMF.

Public finance management[15]

B1.16 Public finance management has always been at the centre of PGBS design. Innovations by the GOU in terms of the PAF and SWAps, combined with the explicit commitment by the GOU to ensure the additionality of PGBS and to disburse PAF programme budgets in full, gave

[14] Strategic fund PCR.
[15] See the detailed review of PFM standards in Annex 4B.

donors the confidence to begin providing PGBS. All PRSCs include a stipulation about IPs agreeing the MTEF allocations, and budget execution being in line with the MTEF.

B1.17 Early sector and PAF budget support focused on this front end of the budget cycle – strategy, allocation and disbursement of budget funds, with little attention to other aspects of public finance management. However, the focus has shifted towards a more holistic approach to financial management, incorporating reforms to the accounting, procurement and audit function as well as allocation and disbursement. This is appropriate, but there has been less attention to the deepening of the budgetary process: the PRSC has concentrated on central rather than local government PFM, despite the importance of LGs in delivering the services supported by PGBS. The first LG-specific prior action related to the tabling of a LG procurement bill in 2004.

Sector policy, decentralisation and service delivery

B1.18 At a sector level, the processes have been well conceived in the support of the development and implementation of sector strategies. Sector and full GBS have also responded well to the weaknesses in aid instruments at the sector level, fostering improved coherence. The PGBS design, combined with the SWAps and the PAF, allowed a significant and fast increase in the funds channelled through the LGs' budgets to service delivery, supported by TA within key areas. The PGBS process was not clearly aligned with overall decentralisation objectives, as outlined in the 1995 Constitution and the Local Government Act 1997. This was particularly so in terms of local accountability, ownership, citizen involvement, participation and voice, and instruments better to align support with these objectives are still being explored (see Annex 6 for more discussion of this issue).

Politics and governance

B1.19 Early PAF and sector budget support operations did not directly deal with governance but they subscribed to transparent reporting and review processes and funding of monitoring activities, which were built into sector undertakings and PAF guidelines. From the outset PRSC prior actions have represented a clear desire to tackle corruption (the leadership code featured in the first PRSC). Other issues relating to political governance were not high on the agenda in the 1990s, as many donors felt that the democratic process was progressing as well as could be expected. However, bilateral donors in particular have become more concerned about governance issues, as the initiative to form a governance group and matrix demonstrates, but the way in which governance issues have been handled have not always taken into account the political realities underlying the emerging governance problems (see the discussion of governance issues in Chapter C5).

Dialogue, Conditionality and Ownership

The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.		
Level: **	Trend: =	Confidence: ***

B1.20 The dialogue and conditionality, at a sector level especially, have evolved in a way that reflects better understanding of what is technically feasible and what is not. Much of the PRSC dialogue focuses on technical reforms within government which will strengthen the ability of government to deliver, and which government is willing and able to implement effectively. Agreements have become more realistic and less ambitious. Even so, it is possible to identify gaps where dialogue and conditionality might have helped foster reforms, and there could have been more progress made. For example, although they have not been ignored, the implementation of cross-sector decentralisation reforms, as well as public sector reform, have been given little priority in the dialogue, despite the scope for progress.

B1.21 Many government stakeholders talked positively about the role of dialogue and conditionality, which inter alia helped exert managerial pressure on different government agencies to maintain the momentum of reforms, and protected those reforms from opponents. However, it is also clear that the dialogue and conditionality have not always "picked winners" by identifying the areas where this pressure is likely to accelerate progress. This is in part due to a shallow understanding of the political economy of reform processes. For example, prior actions about controlling public administration expenditure outturns or reducing corruption may reflect a genuine desire by the MFPED (and donors) to improve the efficiency of public expenditure. However, it is unrealistic to expect that MFPED will be able to exert significant control over expenditures from Parliament and State House with or without conditionality, or for technical reforms around corruption to succeed in the absence of a clear political drive to stamp it out. Related to this is the emerging dialogue and conditionality around governance. While donor concerns over political governance may be legitimate, it is clear that they are unable to influence the political process through dialogue and conditionality. This is widely acknowledged, even by those writing governance conditions into their PGBS agreements. However, the governance requirements in agreements read more like traditional conditions, as opposed to red lines that will make it difficult for donors to continue to provide aid in general (and not PGBS in particular).

B1.22 Although the number of prior actions has remained roughly constant at about 10, the overall PRSC matrix has had an increased number of actions within it, mushrooming from 46 in PRSC1 to 70 by PRSC3. The PEAP matrix, which is being used for the PRSC5 dialogue, had 200 discrete actions, although this includes the details of sector actions (see Annex 3, Table 3C.1). While the monitoring of prior actions has been strengthened, this implies that monitoring of overall progress is becoming diluted. Some interviewees within government and civil society felt that donors were continuing to use the dialogue as a mechanism to buy reforms, and individuals in donor agencies were often keen to push their own personal agendas within the dialogue.[16] However, they also pointed to a major difference, which was the ability of government to say no, while agreed actions do increasingly appear to be based on existing policies and plans.

B1.23 Recent initiatives to use the PEAP matrix as the basis of dialogue and conditionality are consistent with higher degrees of ownership, but only up to a point. It is often assumed that all the actions in the PEAP are owned by the GOU, especially at the political level, although the PEAP appears to have become an increasingly technical and less political framework. The comprehensive nature of the PEAP, and of the PEAP3 matrix, means that the dialogue may become less focused, and water down the quality of reforms across government (although the more comprehensive PEAP matrix is a positive development – see Chapter B9).

B1.24 Finally, high turnover of IP staff can undermine the quality of the dialogue. As a result the depth of understanding of those engaging in the dialogue is often shallow. This undermines the value added of the dialogue, and the incentives for GOU counterparts to engage.

[16] This may take the form of getting an action into the PRSC matrix or sector undertakings.

Poverty Orientation

The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.		
Level: ***	Trend: +	Confidence: ***

B1.25 PGBS is well aligned with the poverty reduction strategy defined in successive editions of the PEAP, and therefore echoes its areas of focus with respect to the different dimensions of poverty. The pillars of the PEAPs (Box A2.1 above) clearly reflect all the dimensions of poverty highlighted in the EEF (income poverty, non-income poverty, and empowerment/social inclusion). It is fair to say that in practice, the initial emphasis of PEAP implementation, supported by PGBS funds, was on non-income dimensions (basic social services). Similarly, the PGBS dialogue has tended to focus on the public sector and in particular on social service delivery. Early SWAps[17] which benefited from budget support were health and education, and the PAF fostered the largest budget increases in those sectors as well as in water and sanitation. The strategies in the PEAP and at sector levels, and as a consequence PGBS, are well oriented to deliver against many of the social sector-related MDGs.

B1.26 Although income poverty reduction has always been an objective of the PEAP, the dialogue around agriculture took off later than for the social sectors, and only now is being accompanied by significant increases in public resources to the sector. In addition there is concern that economic and macroeconomic policy is not responding to the needs of the private sector as a whole, and not supporting the growth agenda adequately. The analysis of poverty (through participatory assessments etc., see Chapter B8) embraced all the dimensions, and was important in highlighting, for example, the importance of security to the welfare of the poor. Hence the PEAPs have always had pillars relevant to security and governance concerns. Some "empowerment" dimensions (such as gender) are more easily incorporated in the agenda than others, and, as noted, broader governance issues have been an increasingly sensitive issue. Decentralisation, which has been supported by PGBS funding flows via the PAF, but less so in terms of dialogue and conditionality, can be seen as an "empowering" reform (although its pro-poor effects should not be taken entirely for granted). There is increasing attention to income-generation dimensions of the poverty reduction strategy, with IP–GOU collaboration over the development of the Plan for Modernisation of Agriculture (PMA) as an important element (see Chapter C2 below for more on this issue).

B1.27 Overall, we conclude that all the dimensions of poverty reduction are well represented in the design of PGBS. Whether they are reflected in a suitably balanced way in implementation is an issue that recurs in later chapters.

Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and government) show differences in expectations and approaches related to PGBS or some of its components.		
Level: **	Trend: =	Confidence: **

B1.28 The area of most consistency in the design of PGBS is the framework for conditionality and dialogue. The interface between sector wide approaches and the overarching PRSC

[17] Although the roads sector was one of the first to develop a SWAp, donor projects have remained the dominant form of funding, although rural road maintenance is part of the PAF.

process has become increasingly coherent, with sector dialogue happening within sectors and PRSC dialogue largely covering cross-sector issues. Over time increased coherence in the dialogue and use of conditions has emerged. All full and PAF GBS is tied to the PRSC dialogue and conditions in some way, while sector PGBS donors engage in the sector dialogue and associated conditions. Where there is room for technical consensus, especially at the sectoral level, the partnership between line ministries and development partners has matured, and the central government agencies and ministries now understand their different perspectives and the boundaries within which they work.

B1.29 However, even in the dialogue there is a degree of incoherence across the donor community. There is often a tighter relationship between sector donors and their technical ministries in the dialogue than there is between the different donor groups, which often results in resistance to cross-sector reforms. A case in point is that different sector donor groups lobby on behalf of their sectors for increased allocations in the budget process. Sector donor groups are often resistant or unhelpful to initiatives that are aimed at improving coherence across sectors, whether that is agricultural education or giving local governments discretion to reallocate sector grants under the Fiscal Decentralisation Strategy.

B1.30 In addition, the quality of the dialogue is adversely affected by the high turnover of donor staff and a lack of specialisation. Donor staff rarely receive training on GOU systems, and the level of understanding of new donor staff of the systems they are supporting can only be superficial. This limits the ability of donors to add value to the dialogue, and the incentive for GOU officials to engage in meaningful dialogue with those donor partners.

B1.31 There is even less coherence in some other aspects of PGBS design. One major problem in Uganda is the sheer number of different budget support instruments. The number has mushroomed from nine in 1998/99 to 29 in 2003/04, with the vast majority being sector budget support. In 2003/04 the five largest PGBS instruments amounted to 67% of PGBS funding, while the 20 smallest accounted for only 17% of PGBS funding. This would not necessarily matter if they were harmonised with each other. However, as described earlier in this chapter, the PGBS instruments vary significantly in design (e.g. in their planning horizons, and their different conditions and disbursement procedures). There are also differences in the way that different donors' assessments of performance affect their disbursement decisions, even in the context of joint mechanisms for dialogue and performance review. (However, although this creates an element of uncertainty for the GOU, the fact that donors do not all react in identical fashion may serve to dampen aggregate volatility.)

Response to Previous Weaknesses in Aid Management

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.		
Level: ***	Trend: =	Confidence: ***

B1.32 Despite their many inconsistencies, the various forms of PGBS design have addressed a lot of the early incoherence of aid, and aid management, building on the framework presented by the MTEF, PAF and SWAps. Donor projects were often fragmented and poorly aligned with government policies and processes, and used a multiplicity of systems. The PGBS design addressed this by allowing donors to provide support either through sector or through full GBS government policies and systems more directly. There are now more coherent frameworks for delivering large-scale financial support, TA and CB both within and across sectors.

Principal Causality Chains

B1.33 This chapter does not review a causality chain as such, but has examined the consistency between the "entry conditions" of the EEF's Level 0 and the inputs at Level 1. In most respects the "design" of PGBS in Uganda has been a relevant response to previous experiences and to the changing context for aid. The design has continued to evolve in the light of experience. Later chapters examine how successful PGBS has been in achieving the objectives set for it.

B1.34 An important factor behind the degree of PGBS ownership and orientation towards poverty was the leadership in the Ministry of Finance, supported by the President. MFPED-directed central and sector budget processes laid the foundation for a PGBS design which was able to respond to Uganda's specific situation. Reflecting its origins, the design was particularly strong on the integration of PGBS with the planning and budgeting systems, and in support to service delivery, linking in with various SWAp processes. It was less firmly based on analysis of the political context. TA and CB have been the least well integrated of the PGBS "inputs".

B1.35 In addition, it is important to mention here the degree to which the inputs envisaged in the EEF are present in Uganda, as this is an important starting point for tracing the hypothesised effects of PGBS through the levels of the evaluation framework. Uganda has enjoyed a substantial flow of PGBS funds (point 1.1 on the causality map). Policy-focused dialogue (1.2) and conditionality (1.3) are also present. Significantly, many of the structures for dialogue which PGBS utilises (e.g. the consultative budget process and sector working groups) pre-dated the shift to PGBS. This makes the attribution of effects to PGBS more difficult. TA and CB are the least well defined inputs in the Ugandan PGBS package, rarely forming an explicit part of a PGBS instrument, and usually linked to PGBS through dialogue and conditionality. PGBS is well aligned with government objectives, and there has been moderate progress in harmonising PGBS instruments (1.5).

Counterfactual

B1.36 Continuation of old-style structural adjustment support was not an available option: there was not the same case for balance of payments support and IPs had lost faith in the didactic approach to conditionality. Similarly, the HIPC initiative had removed the need for MDF-type support: as we have seen, HIPC resources and the legacy of the Multilateral Debt Fund inspired the PAF, which became an opportunity for a new approach to programme aid. Concentration on the project modality, if carried out in the context of SWAps, could have addressed the incoherence and fragmentation of projects, and some progress could have been made in aligning projects with government objectives and harmonising support. However, project support would not have been so well aligned as it does not use, and consequently strengthen, GOU systems in the same way. More plausibly, IPs could have confined themselves to genuinely earmarked budget support, but this would have been a much more rigid approach, foreclosing the benefits of increased GOU discretion which we investigate in later chapters. A strategy using real or notional earmarking alone would have limited the opportunity for addressing cross-sector reforms in the dialogue. In practice, the design adopted was not a substitute for sector approaches so much as a way of integrating them into more coherent and comprehensive support for the national poverty strategy.

B2. The Effects of PGBS on Harmonisation and Alignment

Has PGBS contributed to greater harmonisation and alignment of the aid process?

Introduction

B2.1 The evaluation question this chapter addresses is whether PGBS has contributed to greater harmonisation and alignment (H&A) of the aid process. The concern is whether the H&A inputs of PGBS (point 1.5 on the Causality Map) do result in the IPs moving towards alignment and harmonisation around national goals and targets (the Level 2 immediate effects at point 2.6). It is a matter for later chapters to examine whether such immediate effects do in turn generate the subsequent benefits that are commonly ascribed to H&A.

B2.2 The evaluation criteria in this chapter are structured to distinguish between three distinct components of H&A: (a) alignment with government objectives, policies and strategies; (b) alignment with government systems, and (c) harmonisation among donors.

Relevant Facts

B2.3 The aid management "infrastructure" in Uganda is elaborate. It has been described in general terms in Part A, and in more detail in the review of PGBS design in Chapter B1, supported by Annex 3C. Two notable features are (a) that the GOU (and MFPED in particular) played an active role in its design, and it centres on what are clearly GOU components and systems, such as the PEAP and the planning and budget process centred on the MTEF; and (b) that few of the elements are specific to PGBS. The PRSC cycle could be viewed as specific to PGBS, but it has itself assumed a wider significance, as discussed below.

Assessment against Evaluation Criteria

Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through: (a) aligning aid objectives and conditions with government objectives and targets			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.4 In general, alignment of IP objectives with those of the government is moderate; it is based on the clear articulation by the GOU of objectives which match those of IPs. PGBS has had a strong effect in aligning IP assistance with GOU objectives and targets in an increasingly operational way. The PEAP, which functions as the PRSP for HIPC and associated purposes, provides the focus for alignment, and this is formalised in the partnership principles. Initially, PRSC conditions were not drawn directly from the PEAP (largely because the PEAP lacked the necessary matrix of intermediate measures and targets), but a convergence between the PEAP and PRSC matrices is now taking place. There is substantial coherence between the PEAP and GOU sector strategies, so that sector-focused PGBS instruments are also aligned with GOU objectives and targets, and sector conditions are nested into the overall PRSC matrix (see

Annex 3C for more details). PGBS alignment has reinforced the credibility of the partnership principles and the pressure for non-PGBS aid also to be explicitly aligned with GOU strategies.

Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B2.5 As noted, MFPED has played a strong role in aid coordination, and the management arrangements for PGBS are a manifestation of this – not only in terms of PGBS itself being directed towards clearly articulated, costed and prioritised GOU priorities, but also in terms of sector and local government budgets and strategies being increasingly integrated. The allocation of PGBS funds in this way increases the credibility of the budget process (see Chapter B4) and thereby increases the GOU's ability to coordinate all forms of aid. The inclusion of all donor projects in MTEF ceilings, as from 2004/05, is likely to strengthen GOU leadership still further.

B2.6 Similarly, PGBS and SWAps alike have increased the tendency for the GOU and donors to conduct analysis jointly, and for donors to support and comment on analytic work commissioned by the GOU. There is also a continuing trend towards donors sharing analytic work related to PFM (with now a broad and collaborative Country Integrated Fiduciary Assessment, see World Bank 2004c).

B2.7 PGBS has made less difference to the management of TA. The GOU (and MFPED in particular) has demonstrated a capacity to make effective use of long-term TA by integrating TA personnel into its structure and work programmes. However, TA inputs generally have not been tightly linked to the other PGBS inputs, and continue to operate mainly through free-standing TA projects or through ad hoc support managed by donors.

Alignment with Government Systems

Government planning and budget cycles

The extent to which PGBS has contributed to increased IP alignment with government systems at national and sectoral levels through: (a) aligning fund commitment and disbursement with government planning and budget cycles			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B2.8 Uganda has an unusually well-specified planning and budgeting cycle. There is a clear annual calendar for budget preparation which starts from the preparation of framework papers and proceeds to prioritise budget allocations within mutually consistent expenditure ceilings; the cycle is replicated for sector ministries and local governments. Donors are directly involved in the process, through sector working groups and the annual Public Expenditure Review. Annual budgets are prepared in the context of a rolling Medium Term Expenditure Framework; during PEAP3 preparation, a Long Term Economic Framework (LTEF) has also been developed (LTEF 2004). PGBS management arrangements make the IPs deeply aware of, and involved in, the planning and budget calendars that Uganda follows. The annual PRSC calendar is designed to synchronise with the budget calendar. Nevertheless, IP alignment with these cycles has been deficient: first, timing of actual disbursements is somewhat unpredictable (see discussions of predictability in Chapter B3 and Annex 3C); second, IPs generally have not provided medium-term or long-term commitments of funding in line with the planning horizons that they have applauded the GOU for adopting.

Government implementation systems

(b) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.9 PGBS is by definition disbursed via GOU cash management, procurement and implementation systems and made subject to GOU audit. The large volume and increased share of PGBS has meant a commensurate increase in reliance on these systems. Especially to begin with, however, PGBS was accompanied by special reporting and validation requirements. An early request for auditing of the PAF was misconceived (since the PAF is only a virtual fund within the GOU budget), but an elaborate system of reporting and review was linked to the PAF, and in particular to its conditional grants to districts. However, these have developed into a more integrated reporting system, linked to the fiscal decentralisation strategy (see Annex 6); increasingly, instead of being primarily fiduciary assurances to donors, the reports and reviews surrounding the PAF and SWAps have become part of the GOU management system. There has been increasing attention to checking the arrival and use of funds, not just their disbursement, through tracking studies and service delivery surveys (see Chapter B7 for more on this). However, donor-funded TA and CB programmes linked to PGBS often use parallel reporting and accountability mechanisms, and may be off-budget.

Harmonisation among Donors and Modalities

The extent to which PGBS has contributed to improved overall coordination and complementarities of IPs' programmes.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.10 The effect of PGBS on overall coordination and complementarity of IPs' programmes has been strongly positive, largely because of the way PGBS itself has fitted into increasingly coherent GOU planning and budget systems. The fact that SWAp processes do not discriminate between PGBS and other donors has helped to ensure the coordination and complementarity of their aid. For example, those donors which cannot provide budget support instead provide TA and CB support in the areas of health and decentralisation. In practice, convergence on government strategies and systems (as opposed to separate harmonisation among themselves) has been the principal route to harmonisation among donors. For example, there has been harmonisation around the dialogue and conditions associated with aid in the context of SWAps and full general budget support. Communications to sectors have been increasingly through the rotating chair of sector donor groups, and not on a bilateral basis. Donors have been increasingly selective in their areas of participation in the dialogue with the GOU, with some donors disengaging from a number of sectors, either completely or by delegating other donors to represent them. This, combined with the consolidation of aid, has helped to reduce transaction costs (see Chapter B3).

B2.11 However, there has been less harmonisation of PGBS disbursement procedures. This is a reflection of donors' differing administrative procedures, but also a reflection of the fact that they have different "red lines", and feel that they need to make independent decisions when it comes to disbursement, even if they can agree common policy positions. There was an effort to develop an agreed set of operational principles for full GBS in 2003, but this stalled, inter alia, due to a lack of interest from the MFPED. More recently a subset of donors[18] has been attempting to develop the Uganda Joint Assistance Strategy (UJAS Partners 2005) in support of the third iteration of the PEAP.

B2.12 PGBS has not had a strong influence on the provision of TA and CB by IPs, which remains poorly coordinated. However, TA and CB are often linked to PGBS through the dialogue, which, in certain circumstances, has improved coherence.

The extent to which there have been specific complementarities between PGBS and other forms of aid.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B2.13 Numerous complementarities between PGBS and other modalities have already been cited. These vary across sectors, and tend to be stronger in the SWAp sectors. SWAp processes have helped ensure complementarity between aid instruments as they provide a common framework for dialogue for PGBS and non-PGBS donors. TA has also been increasingly oriented towards assisting the implementation of sectoral strategies, and not the implementation of stand-alone projects. Nevertheless, some donor projects are conceived outside the dialogue and coordination processes. The gravitational pull of such projects will be reduced if MFPED succeeds in its intention to incorporate them in budget ceilings (so that sectors seeking off-budget aid will forgo equivalent budget resources).[19] A potential dissonance relates to global funds, where the GOU has similarly argued that such resources should be included within aggregate and sector aid and expenditure ceilings.

Principal Causality Chains

B2.14 PGBS effects on harmonisation and alignment as far as Level 2 of the EEF have been strong. Effects have not been limited to the inherent H&A in PGBS itself, and GOU coordination efforts have been reinforced by peer pressure among donors, though not all donors have the same propensity to conform.

Counterfactual

B2.15 Harmonisation and alignment effects of PGBS were facilitated by the pre-existing strengths of GOU leadership and by the previous and parallel development of SWAp mechanisms. However, the same degree of harmonisation among donors and alignment in support of government strategies and, more particularly, government systems, would not have occurred in the absence of the PGBS modality.

[18] As of June 2005 these were the World Bank, AfDB, UK (DFID), German, the Netherlands, Norway, Sweden.
[19] With effect from 2004/05, sector ceilings do now include donor projects, but it remains to be seen how effectively the discipline is applied.

B3. The Effects of PGBS on Public Expenditures

How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?

Introduction

B3.1 This chapter relates to the transition from the immediate effects of PGBS (Level 2) to the outputs of PGBS (Level 3) in the evaluation framework. It focuses on two hypothesised chains of effects:

(a) that an increase in external resources (2.1), an increasing proportion of which are subject to the national budget (2.2), along with an increase in predictability of external funds to the national budget (2.3), leads to partner governments being empowered to strengthen systems (3.2) and hence to increased operational and allocative efficiency of PFM (3.5/3.6); and

(b) that an increasing focus of policy dialogue, conditionality and TA/CB on key public policy and expenditure issues (2.4/2.5), when combined with increased budgetary resources (2.1), leads to an increase in the resources made available for service delivery (3.1).

B3.2 This chapter will first survey the public expenditure record of Uganda, and then evaluate the role of PGBS in relation to the six judgement criteria set out in the EEF. The final section will review the principal causality chains and counterfactuals. (Annex 4A provides a more detailed analysis of public expenditure trends and the impact of PGBS on the efficiency of expenditures.)

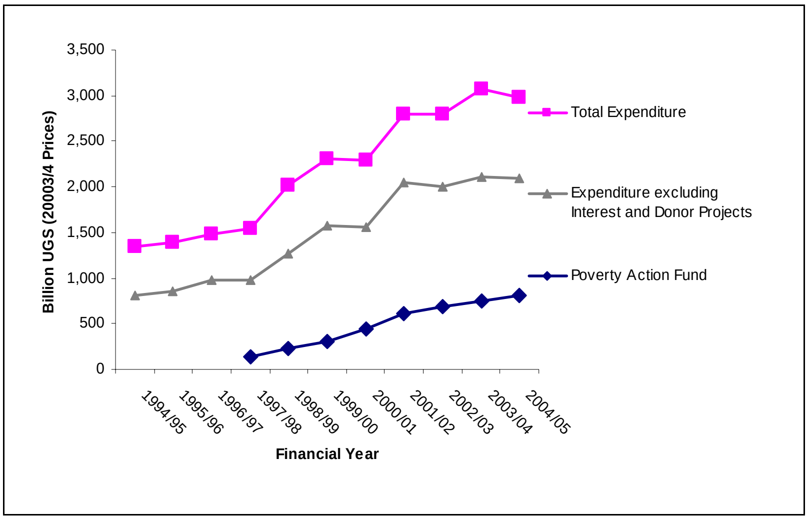
Relevant Facts: Trends in Public Expenditure[20]

B3.3 Public expenditures have increased in real terms by 240% over the last 10 years, but the increase in public expenditure has been far more rapid since 1998/99, when the expansion averaged 13% a year, until 2003/04, in the context of buoyant aid flows as well as domestic revenues. This was more than double the rate between 1994/95 and 1997/98 at 6% (see Figure B3.1).

B3.4 Poverty Action Fund programmes represent Uganda's definition of pro-poor expenditures (see Box B3.1). A reorientation of budget expenditures has occurred towards those PEAP priorities protected under the PAF from 19% in 1997/98 to nearly 36% of discretionary GOU expenditures[21] in 2003/04. The bulk of budgetary increases have accrued to the five main original PAF programmes; however, several additional programmes have been added to the PAF, broadening its scope. Moreover, the share of sector budgets being allocated to primary levels of service delivery has increased, reflecting significant reorientations of GOU expenditures within PAF sectors (see Annex 4, Table 4A.2). This has been particularly noticeable in roads and health (although once donor projects are included in these sectors, a much lower proportion of funding is spent directly on service delivery). It is also important to note that the PAF excludes those interventions which might indirectly reduce poverty, and not all existing PAF programmes are effectively targeted to the poor (see Box 3.1).

[20] A more detailed analysis of public expenditure and public financial management is undertaken in Annex 4A.
[21] Excluding donor projects and interest payments.

Figure B3.1: Trends in Aggregate and Poverty Action Fund Expenditure



Source: Ministry of Finance.

B3.5 Public administration as a proportion of public expenditures fell from 15% in 1997/98 to 12% in 2003/04. On the other hand, the cost of financing the budget has increased significantly, with interest payments increasing from 5% of expenditures in 1997/98 to 9% in 2003/04. This has been caused by an increase in the stock of domestic debt as a result of sterilisation activities undertaken by the Bank of Uganda (BOU) (discussed in Chapter B6).

B3.6 Another striking trend is the increase in transfers to local governments which increased in real terms from UGS 276bn in 1997/98 to UGS 798bn in 2004/05 (2003/04 prices), and as a share of the discretionary GOU budget from 30% to 36% over the same period. About three-quarters of those funds are channelled via the PAF as conditional grants earmarked to specific PEAP priority programmes (see Annex 6 for more details on LG expenditure).

B3.7 There has been a significant increase in discretionary resources available to the GOU with the proportion increasing from 55% to 67% of the budget in real terms between 1994/95 and 2003/04 (see Annex 4, Figure 4A.3). However, the proportions of expenditure allocations made to statutory obligations (including debt service) and to wages have increased, reducing flexibility. Meanwhile, the expansion of the PAF, given the rigid and static definition of poverty reduction, has also served to undermine flexibility. These factors in combination have reduced the share of "discretionary" resources from 35% in 1997/98 to 25% of the budget in 2003/04. Discretion at the local government level is severely undermined by the rapid expansion and proliferation of earmarked conditional grants combined with declining local revenues and a relative decline in the unconditional grant.

B3.8 In aggregate terms, revenues and public expenditures are predictable in Uganda, with revenues and grants varying an average of 6% from the budget since 2000/01 and expenditures 4% from the budget, although arrears amount to more than 16% of expenditures. At the local government level, aggregate expenditures are far lower than budgeted, as a result of unrealistic local revenue and donor project projections (Williamson et al 2005), while central government grants tend to be spent in full by local governments. At both central and local government level there are significant variations in the composition of expenditures. At the central level, domestic interest payments and donor project expenditure are the areas of the budget with highest variability, and there are significant variations in expenditure across ministries (see Annex 4A).

Box B3.1: Definition and Tracking of Pro-Poor Expenditures in Uganda

The programmes in the Poverty Action Fund (PAF), which was formed in 1998, represent the Government of Uganda's pro-poor expenditures. It is a virtual poverty fund which represents a subset of public expenditures in the budget which can be tracked through budget formulation and implementation.

Definition of PAF Programmes: at the inception of the PAF they were a selection of priority programmes from the 1997 PEAP. In 2000 a definition of pro-poor expenditures was agreed which set out criteria for new programmes to be included in the PAF. These were that programmes:

- must be in the PEAP;
- must be directly poverty-reducing;
- must deliver a service to the poor.

In addition, a further requirement was that a programme must have a well-developed strategy or plan.

Listed below are the original PAF programmes and the additional programmes included in the PAF since 1998. Since 2000, new PAF programmes have had to meet the PAF criteria.

Original PAF Programmes in 1998	Additions between 1998 and 2004
Primary education	District and referral hospitals
Primary healthcare	Adult literacy
Water and sanitation	Wetlands
Agricultural extension	Strategic exports (cotton, coffee, etc.)
Rural roads	Land
Monitoring and accountability	Microfinance and restocking
	Urban roads
	Community rehabilitation
	HIV/AIDS orphans
	Reduction of court-case backlog
	Local Government Development Programme

Tracking and Special Treatment: while allocations to PAF programmes are integrated within the MTEF, a separate PAF budget is presented in budget documentation. Originally the GOU committed to ensuring that increases to Sector and PAF GBS resulted in equivalent increases in the PAF budget, but now the GOU only commits to maintaining the PAF budget as a share of the total GOU budget.

Releases to PAF programmes, which are protected, were reported on in PAF quarterly reports until 2000; since then they have been reported in half-yearly budget performance reports against the PAF budget. Disbursements to PAF programmes are protected. Local governments, to which approximately three-quarters of PAF resources are channelled, report quarterly on expenditures and activities resulting from the grants they receive. A share of the PAF budget, originally 5%, is allocated to accountability institutions, line ministries and local governments for the monitoring of PAF programmes.

Emerging Concerns: while there have been additions to the PAF, no programme has been withdrawn from the PAF. There are concerns that this is leading to inefficiency and rigidities in budget formulation and, in particular, execution. The narrow definition of pro-poor excludes programmes which might indirectly improve the lives of the poor, while the early bias towards social services in the PAF has remained, despite efforts to increase attention to the productive sectors.

Source: Adapted from Williamson and Canagarajah 2003.

B3.9 Annex 4A documents evidence that the efficiency of public expenditure, in aggregate, has increased over the evaluation period. Public administration overheads have declined as a share of public expenditure and there has been a slight increase in the share of sector budgets allocated to service delivery; however, this has been offset by increases in domestic interest payments. There has been a slow but steady increase in recurrent spending relative to development since 1999/2000; this has been evenly distributed between salary and non-salary expenditures. Over the same period, there has also been an increase in domestic development expenditure relative to donor-financed projects, and there are indications that this has led to a slight fall in aggregate project overhead costs.

Assessment against Evaluation Criteria

Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General situation:	Level: ***	Trend: =	Confidence: **
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: **

B3.10 Combined increases in programme aid amounted to 31% of the real increases in total public expenditures between 1997/98 and 2003/04, while increases in donor project support contributed only 18% to these increases. The largest other contributor was domestic revenue, which amounted to 33% of public expenditure (see Annex 4A, Table 4A.1).

B3.11 PGBS has also contributed to a shift in public expenditure towards priority PEAP programmes, via the PAF. However, this undoubted success is tempered by legitimate doubts about the relevance and precision of the definition of poverty-reducing programmes, and hence the resulting expenditure composition. These increases were initially accelerated by the notional earmarking of HIPC combined with sector and PAF budget support as additional funding to PAF programmes which took place until 2002. Since then the earmarking to sectors and PAF has been truly notional, and has not had any direct effect on the size of pro-poor expenditures. Since then GOU has only committed to ensuring that PAF expenditures do not decline as a proportion of the budget. This commitment is seen by donors, regardless of the type of GBS, as being a central tenet of the partnership and is now the major way in which PGBS is influencing the levels of pro-poor expenditure.

B3.12 Increased allocations for PEAP priorities had the knock-on effect of increasing transfers to local governments (see Annex 4, Table 4A.2). This, combined with the fact that many donors have phased out area-based programmes in favour of co-financing the local government development grant (notionally earmarked sector budget support), has improved the equity of local government expenditures.

Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B3.13 PGBS funds have made a strong contribution to the increase in external funding subject to the budget process. From the outset, all types of PGBS funding empowered the GOU to increase budget allocations to PEAP priorities. Even the commitment to additionality of notionally earmarked sector and PAF GBS to budget allocations did not undermine flexibility early on, as they were contributing to under-funded priority PEAP programmes in the PAF, filling a funding gap, which GOU wanted to fill. Once additionality became a potential constraint, GOU withdrew the commitment.

B3.14 Many of the emerging rigidities being encountered in budget allocation by central government and by local governments can be traced back to the PAF. GOU's commitment to maintain PAF expenditures as a proportion of the GOU budget and disburse them in full, limits government's discretion in budget preparation and in execution (see Annex 4, ¶5–8). Similarly the limited definition of poverty-reducing programmes in the PAF also results in the exclusion of interventions that are indirectly poverty-reducing. Insofar as this is an important element of the continued partnership between government and donors in Sector, PAF and full GBS arrangements, PGBS is now contributing to a degree of rigidity in expenditure allocations.

B3.15 Rigidities resulting from the increasing debt service obligation are primarily the result of domestic borrowing to sterilise aid inflows (see Chapter B6), while the increased wage expenditures are a logical consequence of the expansion of public services, which have been fuelled by PGBS.

Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: *	Efficiency: *	Confidence: ***

B3.16 The Rome Declaration on Harmonisation (OECD DAC 2003a) adopted the following good practice on the predictability of aid:

> **Multi-year programming of aid** – donors, wherever possible, should programme their aid over a multi-year timeframe that is consistent with the financial planning horizon of the partner government, and are transparent about the circumstances under which aid flows may vary. The combination of longer term and more predictable finance enables partner governments to have more trust in the reliability of donor finance; this is necessary to plan increases in service delivery capacity, and facilitates macroeconomic management.

B3.17 The issue of predictability was explicitly discussed as part of the first PRSC design, but the World Bank and GOU opted for a series of annual single-tranche budget support agreements, on the basis that the risk of delays or interruptions was offset by the guarantee that funds would be fully disbursed once the prior conditions had been met (see Miovic 2004 for a review of the debate between annual and multi-annual approaches of the PRSC).[22] Although each PRSC is technically a separate agreement, they are a linked series of operations whose preparation overlaps. As regards other PGBS instruments, some agreements are annual while others are for a fixed term of multiple years. To date only DFID has introduced a rolling medium-term agreement that matches the government MTEF cycle, having replaced its fixed multi-annual commitments from 2004/05.

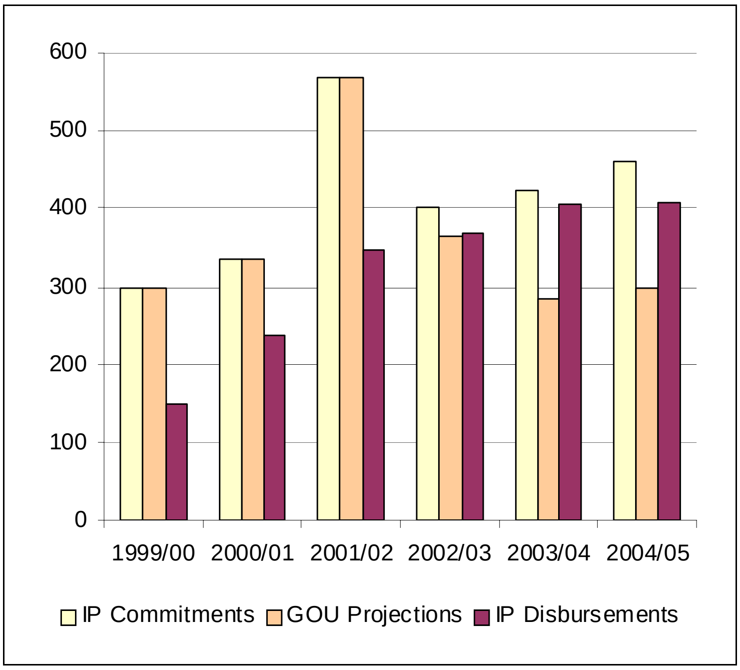
B3.18 In practice, the contribution of PGBS funding to an increase in the predictability of aid flows and public expenditure has been weak, although there have been improvements in predictability in the last three years of the evaluation period. PGBS disbursements have tended to fall short of commitments. Over the three years 1999/2000–2001/02, the disbursement rate of programme aid (excluding HIPC) averaged 60% of budget. In 2000/01 disbursements were only 70% of projections, largely because the PRSC1, which the GOU expected in 2000/01, was not disbursed until 2001/02. In 2001/02, disbursements were 61% of budgeted, as only one FY's worth of PRSC was disbursed, while two were projected, and other donors such as the EC did not disburse. The shortfalls were partly offset by exchange rate movements, but the under-

[22] See also the Synthesis Report (IDD and Associates 2006) for a full discussion of predictability, volatility and reliability of funding.

disbursements led MFPED to apply a 10% discount to donor programme aid commitments in 2002/03. This discount factor was increased further to 30% in 2003/04 and 2004/05.

Figure B3.2: IP Programme Aid Commitments and GOU Projections vs Disbursements 1999–2005

excluding HIPC and PRGF, USD million



Source: Ministry of Finance.

B3.19 However, since 2002/03 budget support disbursements have been more predictable, averaging 8% below commitments (or 27% above budgeted amounts). Project financing has also been erratic, although, for project aid within the budget, slightly less so than budget support. On average, there is no systematic under-disbursement, and over the four-year period of PGBS under review, disbursements only varied 1% from budget. However, it is likely that between projects there will be significant variations in disbursements, given the quality of project-by-project donor commitment data.

B3.20 It is also notable that the GOU has not actively sought to improve the short-term predictability of GBS. The Ministry of Finance appears comfortable with the large variety in procedures and different tranching methods, and has not pressed for a common disbursement arrangement. It is able to smooth the effects of the erratic timing by using its reserves. Despite its short-term volatility, PGBS has been provided consistently over the past six years. There has thus been some stability in its contribution to increased discretionary financing in the budget. In turn, GOU commitments relating to the PAF imply predictability of budget implementation.

Efficiency

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General situation:	Level: **	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B3.21 Annex 4A provides a detailed review of expenditure efficiency (allocative and operational) and the effects of PGBS. It notes that, in any country, expansion of public expenditures at over 10% a year is likely to reduce the pressure to maximise efficiency – attention will be focused more on capturing additional funds than on increasing the operational efficiency of existing resources. Nevertheless, there are clear indications that PGBS has helped to promote improvements in both allocative and operational efficiency, in the following ways.

B3.22 Allocative efficiency has been improved by the shift towards "pro-poor" expenditures that PGBS has facilitated. Moreover, through a combination of increasing discretion and encouraging notional earmarking to PAF programmes it has been possible to increase both recurrent and development funding to service providers, including local governments, relative to central ministries and the public administration sector. This has resulted in more efficient aggregate expenditure. Indications of improved operational efficiency include a better balance between recurrent and capital expenditures, and, within recurrent spending, a better balance between wage and non-wage spending – although there are signs of a reversal from the perspective of local governments since 2003 (Williamson 2005). In addition, there is evidence (see Annex 4A, Figure 4A.6) that GOU development spending is more efficient than donor-financed development spending. The increasing share of GOU spending within the total thus implies an increase in aggregate efficiency.

B3.23 However, it is important to temper these findings by highlighting three negative influences PGBS has had on the efficiency of public expenditure. First, as already noted, the rapid rate of expansion of public expenditure does not maximise the incentives for efficiency. Secondly, the cost of servicing the increasing domestic debt burden is reducing the overall efficiency of public expenditure. This has been caused by the need to sterilise aid inflows, and PGBS, as the major source of increases in aid, has contributed significantly to this (see Chapter B6 for explanation and analysis). However, it is important to emphasise that both of these are negative effects of increases in aid, and it does not matter whether aid contributes to this in the form of increased project or budget support. The third issue is more specifically related to PGBS. The operating rules of the Poverty Action Fund are limiting the contestability of budget allocations and this is undermining the incentives for efficiency still further, as described below.

Transaction Costs

The influence of PGBS on the transaction costs of the budget process and utilising aid.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B3.24 Transaction costs occur at all stages from initial negotiation of aid to its disbursement and the execution of the activities that it finances. Some of the transaction costs of PGBS are particularly visible.[23] Although they have reduced in size, PRSC missions are still large and attention-demanding, especially on senior government staff. Sector review processes are similarly transaction-intensive (but they are not the preserve of budget support donors alone). Nevertheless it is quite clear that the overall transaction costs of administering budget support are substantially lower than for project aid. Despite the staff-heavy work in negotiating and monitoring PRSCs, the World Bank spends 50% less per USD disbursed on budget support than on project support (Miovic 2004). Moreover, this calculation underestimates the cost of administering aid as it does not include the transaction costs associated with project management units and the long-term technical assistance linked to projects, which often plays an administrative function. As Figure 4A.6 in Annex 4A shows, 14% of donor project support is taken up by long-term and short-term consultancy services as opposed to 2% in GOU projects. Although much of this is likely to add technical value, a substantial proportion is also likely to represent programme management costs, which PGBS does not incur. In addition budget support uses GOU procurement, disbursement and accounting procedures during implementation, and this represents a substantial cost saving for GOU compared with project spending that follows donor-specific procedures.

B3.25 Although the overall reduction in transaction costs is evident, there are areas of concern. First, from a local government perspective, the increase in funding via an increasing number of conditional grants has increased administrative costs for central and local governments in administering those grants. This is a feature of the planning and reporting systems developed by the GOU, but donor demands for accountability of PAF-conditional grants did contribute to the establishment of the system. Efforts are under way to rationalise reporting and conditions applied to local governments through the Fiscal Decentralisation Strategy, which should reduce such transaction costs.

B3.26 Second, with their involvement in Sector Working Groups, in the consultative budget process, and in various thematic groups, the involvement of IPs in the budget has increased and this could be interpreted as an increase in transaction costs. Overall, with no commensurate reduction in donor-financed projects (although SWAps in themselves have helped reduce some of the transaction costs associated with projects including the multiplicity of dialogues associated with them), this means that transaction costs at a sector level are likely to have increased, not decreased. However, it is important to note that many of the collaborative structures that PGBS donors are involved in, such as sector working groups in the budget process and sector review processes, are necessary and valuable structures for transparent collaborative governance, and thus have significant value in themselves. Dialogue between central government and local governments is necessary to ensure collective ownership and understanding of government programmes and services. The added donor involvement does undoubtedly add a degree of transaction costs; a challenge for donors is to ensure that their participation also adds value (e.g. by raising the quality of analysis and management).

Principal Causality Chains

B3.27 The flow-of-funds effects have dominated the influence of PGBS on the efficiency and effectiveness of public expenditure. PGBS funds did not originate the visible improvements in the efficiency and effectiveness of public expenditures that have occurred, but they provided

[23] The larger number of smaller meetings required to organise an equivalent value of projects would be less spectacular, but no less onerous. GOU staff would like PGBS to be less transaction-intensive, but they do not want less of it. Similarly, available evidence suggests that aggregate staff costs for donors are also reduced. (At disbursement stage too, the transaction costs associated with PGBS – monitoring and reporting on agreed activities – have a positive value, unlike the verification of import invoices for old-style import support programmes.)

discretionary resources that have facilitated and reinforced them. Both the causality chains described in ¶B3.1 have operated, although not all the links have functioned as hypothesised.

B3.28 Thus, increased operational and allocative efficiency (3.5, 3.6) has been promoted mostly by the increase of funding through the budget (2.2), although budget financing costs have reduced instead of augmenting the effect. Predictability (2.3) has been less of a distinct factor – the GOU has been able to anticipate continued high levels of aid, but has had to take measures to cope with significant short-term unpredictability. PGBS has had an empowering effect on MFPED (3.2), although MFPED's concerns to strengthen the budget system pre-dated and encouraged PGBS rather than the reverse.

B3.29 PGBS has led to a substantial increase in resources for service delivery (3.1). This was a focus of dialogue (2.4) but it was donor more than GOU behaviour that adjusted as a result of the initial dialogue, by providing funds on-budget to support the GOU's PEAP strategy for service delivery (3.1). Early PAF and sector budget support was explicitly linked to budget allocations, through the GOU commitment to PAF additionality. The GOU no longer provides a guarantee of this mechanical relationship between PAF-earmarked funds and additional expenditures, but the relationship between PGBS resources and GOU expenditures continues to be mediated by the dialogue on the MTEF and the budget.

Counterfactual

B3.30 The alternative of continued structural adjustment funding and MDF-style debt relief was not available, but could have yielded many of the positive results, due to the strong budgetary processes that were established before PGBS. It is implausible that service delivery expenditures could have increased to the same extent through project modalities, since (a) the inefficiencies and fragmenting effects of off-budget projects were apparent; (b) project aid could not have been used to expand the recurrent costs of service delivery as actually happened; and (c) project aid did not decline, so the project aid counterfactual would have required an even greater increase in project disbursements.

B3.31 Sector approaches in Uganda have not developed as an alternative channel that pools donor resources but keeps them subject to separate donor procedures; SWAps and PGBS have been mutually reinforcing complements, not alternatives. This was made possible by the pre-existence of a strong budget process and strong technical leadership/political support to the budget process as well as to the poverty-reduction strategy on which it focused.

B3.32 Without the PAF and notional earmarking early on, it is unlikely that the boost to pro-poor expenditures would have been so large and rapid.

B4. The Effects of PGBS on Planning and Budgeting Systems

How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?

Introduction

B4.1 Previous chapters reviewed the effects of PGBS on harmonisation and alignment and on public expenditures. Taking account of the previous findings, the present chapter considers the systemic effects PGBS may have had on planning and budgeting systems and processes. The causality chain to be examined in the present chapter is whether advances stemming from dialogue and conditionality, TA and CB, and harmonisation and alignment have empowered government to strengthen its core budgetary and decision-making systems (point 3.2 on the Causality Map), so as to increase the operational and allocative efficiency of public expenditure (3.5, 3.6), strengthen incentives within government to adhere to policies and reporting lines (3.7), and enhance democratic accountability (3.8).

Relevant Facts: Planning and Budgeting Systems in Uganda

B4.2 Chapter B3 has already reviewed the allocative and operational efficiency of GOU public expenditure and noted the improvements that have occurred. As regards the PFM system, Uganda has had an ambitious and generally successful programme of reform over the last decade. This falls into three main stages:

- *Stage 1: aggregate fiscal discipline.* In the early 1990s the major focus was the establishment of aggregate fiscal discipline, enforced in 1992 through the move to cash budgeting and the development of a medium-term budgetary framework (MTBF), and top-down budgetary ceilings, which were set out in a Budget Framework Paper (BFP). Disbursements to key programme priority areas, such as primary education, were protected. From 1994 the World Bank started to orient its Public Expenditure Review process towards supporting the background analysis for the MTBF.
- *Stage 2: the allocation function.* From 1997 focus moved towards improving the efficiency and effectiveness of resource allocation through the introduction of the Medium Term Expenditure Framework (MTEF) covering all sectors and supporting an outcome-oriented budget, while simultaneously opening up the budget process, enhancing participation and transparency. The MTEF resulted in a sector focus, with intra-sectoral allocation of resources being delegated to sector working groups, and the development of sector strategies and sector wide approaches. The first iteration of the PEAP was finalised, and the Poverty Action Fund formed as a virtual mechanism for directing debt relief and budget support toward PEAP priorities.
- *Stage 3: the legal framework and accounting function.* Since 2000 the focus of reform has shifted towards improving the legal framework for budgeting and financial management, with the enactment of the Budget Act and the Public Finance and Accountability Act, and upgrading of the accounting function within government, which has included the introduction of an Integrated Financial Management System (IFMS).

B4.3 Regarding the quality of Uganda's PFM systems, there has been progress on all fronts, although success has not been uniform. Uganda's budget has become an increasingly reliable indicator of actual revenues and expenditures at the central government level. Local government budgets are less reliable, yet it is important to note that few local governments even had budgets at the start of the evaluation period. This credibility is marred by a large stock of arrears, which continues to grow in some areas. Meanwhile fiscal risk oversight is particularly weak in relation to statutory authorities and local governments. This indicates that, although aggregate fiscal discipline and predictability is strong, it is also fragile.

B4.4 Uganda's budget formulation process has remained relatively open and transparent throughout the PGBS period, and has unusually explicit links between policy and budgeting (PRSP←→sector strategies←→MTEF←→budget). While budget comprehensiveness has improved, and parliamentary involvement has been strengthened, there have been few improvements in the budget formulation process since the start of PGBS in 1998. Although budget execution, accounting and external accountability have all improved over the evaluation period, they still remain at best moderately effective, which indicates that many of the third stage of reforms have yet to have an impact and prove effective, despite substantial investments in these areas.

B4.5 The developments in PFM over the evaluation period summarised here and its current status are reviewed in detail in Annex 4B (using the PEFA performance indicators and HIPC assessment criteria as reference points) for central and local government, while Annex 6 includes additional analysis relating to PFM at decentralised levels.

Assessment against Evaluation Criteria

Systemic Effects on the Budget Process

Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General situation:	Level: ***	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B4.6 In answering this and later evaluation questions, it is important to note that the basic elements of the PEAP and the budget formulation process were in place before the move to partnership GBS. This was one of the foundations of the move to PGBS. In combination, sector review and MTEF processes have helped improve coordination and prioritisation in sectoral budget allocations across the whole budget.[24] The effects of PGBS have been in the nature of reinforcement rather than creation.

B4.7 Thus the higher proportion of on-budget funding (see Chapter B3) has increased the attention paid to the budget process by sectors previously dominated by projects (e.g. health, water and agriculture), and has increased the incentives for agencies to develop strategies and plans. There were two types of effect here. First, those sectors which, early on, received

[24] Uganda's MTEF process is ranked alongside South Africa's as being one of the two most successful in Sub-Saharan Africa (Evans and Holmes 2004).

increases in on-budget funding from the PAF discovered that engagement in the budgetary process could benefit them. Secondly, the increases in budgetary funding experienced by sectors which had developed SWAps and were part of the PAF acted as an incentive for other sectors to develop strategic plans and increase their poverty focus (the development of the SWAp for the Justice, Law and Order sector (JLOS) is a striking example of this). Thirdly, the predictability of PAF programme disbursements increased confidence of the benefiting agencies in the budgetary process.

B4.8 The extent of ownership of the MTEF system and the ceilings it entails is impressive: its merits were cogently explained to the evaluation team by sector agencies, which, in other contexts, might have bemoaned the frugality and interference of the Ministry of Finance. We noted in the previous chapter some of the limits on budgetary discretion, and the risk that PAF protection may now be having perverse effects: on those who benefit from it by encouraging complacency, and on those who do not benefit by undermining the predictability of disbursement and making it exceptionally difficult to attract funding – even if a strong poverty-related case can be made.

B4.9 Despite the rapid increase in discretionary resources since 2000, there has been little improvement in the technical quality of budget submissions, and there is a sense that the budget process is increasingly routine. There is still not enough pressure on sectors from the Ministry of Finance to improve efficiency, and donor groups often exert more pressure. The major exception has been the 2001 Budget Act, which was instigated at Parliament's initiative, and increased their role in the process, increasing the potential for greater democratic accountability and transparency. Parliamentarians were reacting to what they perceived as a lack of involvement in the budgetary process as well, and one of the factors behind this would have been the increased discretion available to the government in the budget (i.e. it was now worth being involved in the budget).

Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B4.10 Accountability for public expenditures has many dimensions. One of the motives for PGBS is a recognition by donors that accountability to them as financiers may undermine the partner government's domestic accountability. Domestic accountability in turn has many facets: e.g. horizontal accountability to service users, taxpayers and citizens; vertical accountability between tiers of administration; rule-based financial accountability, and broader accountability for results. The accountability effects of increasing the use of government systems and processes depend significantly on the quality of those systems and processes in the first place and on whether additional use directly or indirectly fosters improvements. In Uganda's case, reform initiatives from the MFPED that preceded PGBS also strengthened the effects that PGBS could have on accountability. Despite these and other initiatives undertaken during the evaluation period, various PFM assessments show that the accountability of public expenditures has remained moderate at best in Uganda (see Annex 4B).

B4.11 All types of PGBS funds use the Government's financial management systems. In addition, some other aspects of GOU systems are used, where separate instruments are created in other countries. The fact that the PEAP acted as Uganda's PRSP in 2000, as opposed to a new planning instrument being created, meant that there was greater ownership of the process. In addition, unlike in other countries, the WB and IMF use the annual Background to the Budget to act as the PRSP annual performance report.

B4.12 The MFPED has taken a relatively open and transparent approach to the management of the budgetary process, but this was an explicit choice long before the move towards PGBS. Open quarterly PAF review meetings, early on, helped raise the profile of those expenditures. Emphasis at the sector level on broad involvement in sector review processes, including civil society organisations, has helped broaden the accountability, and some civil society stakeholders believe that donors have been central to ensuring they have a seat at the table. Reporting at sector wide level has also helped improve information on performance. There is also increased involvement of Parliament in the budget process through the Budget Act, and the initiative of MPs themselves. PGBS donors have been supportive of many of these initiatives, but at times they have inadvertently undermined domestic accountability processes as well (see Box B4.1).

Box B4.1: Donors Inadvertently Undermine Accountability in the Budget Process

The increased interest of Parliament in the budget process, following the passing of the Budget Act in 2001, should be seen as an important opportunity to strengthen the role of Parliament in resource allocation. During the 2004/05 budget process, the Cabinet (as it was entitled to) made changes to the proposed allocations in the budget framework paper before it was tabled to Parliament.

Development partners were unhappy about the changes, and used the opportunity of the annual Public Expenditure Review meeting to express their concerns. It so happened that Parliament's views were very similar to those of donors, but it was the donors, not Parliament that caught the newspaper headlines ("Donors Reject Budget"). This enabled the executive to criticise the donors' interference in Uganda's sovereign budget process, while the role of Parliament was all but ignored in the press.

If the development partners had held consultations with Parliament beforehand, and had publicly supported Parliament's stance, which was remarkably similar to that of the development partners, then this could have provided an opportunity to reinforce democratic accountability, rather than drawing criticism from the President.

B4.13 At the local government and service delivery levels, various initiatives have been launched to promote accountability, including the publishing of transfers and the use of public notices, participatory planning, and budgeting processes. The fact that a share of PAF funds were set aside for improving monitoring and accountability helped to ensure many of these initiatives were facilitated. However, the reliance on conditional grants to local governments has tended to reinforce upward accountability to the centre, rather than local accountability to citizens.

Durability

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B4.14 At the central government level the budget process has been relatively well internalised (in line ministries as well as MFPED, see ¶B4.8), and MFPED is able to manage the consultative budget process. There is a danger of the process becoming increasingly routine, with a return to incremental budgeting. Some sectors also expressed concern that they get inadequate guidance from MFPED on what makes an effective budget submission.

B4.15 For many of the more recent PFM reforms, it is too early to judge how well they will be internalised (e.g. IFMS). One of the advantages of the MTEF process is that it was relatively simple.[25] Many of the more recent reforms are far more technical and sophisticated, which may make internalising them more difficult.

Capacity development

The extent to which PGBS is supporting capacity development in PFM.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B4.16 The flow of PGBS funding has provided the strongest fillip for capacity development in PFM. By contrast, the benefits from TA and CB, and the resulting complementarities, have been more coincidental than systematic. Despite documented successes in budgeting there is still no coherent PFM reform strategy. PFM reforms are supported either through major donor programmes, such as the World Bank's Second Economic Financial Management Programme (EFMP2), and DFID's Financial Accountability Programme (FAP), or short-term donor-funded consultancies. There has been some effort to synchronise activities through the PGBS dialogue; however, actions remain weakly coordinated. The establishment of a Public Expenditure Management Committee (PEMCOM) was intended to improve coordination; however, the PEMCOM meets infrequently (Pretorius 2006). Therefore, although progress has been realised, PFM reforms have not been particularly coherent, and are poorly oriented towards upgrading PFM performance.

B4.17 In some areas the provision of technical assistance and capacity building has become more demand-responsive and better tailored to the needs of the government. For example, capacity-building programmes for local governments are now based on standard curriculums based on local government procedures and guidelines. The evolution of SWAps has meant that complementary technical assistance and capacity building can be provided by IPs who have not participated in PGBS. For example, USAID is supporting local government capacity building under new guidelines prepared under the Fiscal Decentralisation Strategy, while Japan has provided TA to the Ministry of Finance. The EFMP2 has supported professionalising the accounting cadre at central and local governments, building core financial management competencies in government. There is a view that some of the PFM reform processes going on

[25] In technical terms – but political support was crucial (see Bird 2003).

have made excessive use of TA, rather than forcing the government to make indigenous capacity available within ministries.

B4.18 There are many instances where there are complementarities between financial and non-financial PGBS inputs in building capacity, but these complementarities have not been taken advantage of in full. Notably, there has been a mismatch between the non-financial PGBS inputs and the area where the most benefits of PGBS funding have been realised – in the expansion of local government service delivery. There has been proportionally too little attention to ensuring effective systems for allocating and deploying financial resources for decentralised service delivery, with most attention focused on central government financial management systems. Although capacity building is now more oriented towards local government systems and is demand-driven, there are legitimate concerns that new reforms are not supported by adequate levels of technical support and capacity building (as in the case of local government reforms already mentioned).

Principal Causality Chains

B4.19 The causality chain hypothesised in ¶B4.1 has operated. However, the major PGBS input which served to strengthen Ugandan PFM systems was the flow of PGBS funding which combined with the budgetary process and reforms which were already in train to increase the attention which spending agencies paid to that process. The effects through dialogue, TA and CB, and harmonisation and alignment, although significant, have been auxiliary; they might have been stronger if linked to a more coherent PFM reform and capacity-building process. The effects on democratic accountability are the weakest, with most of the improvements in a technocratic direction.

Counterfactual

B4.20 If there had been no budget support funding, improvements to planning and budgeting systems could have been continued, supported by TA and CB, but at a slower pace, because the added managerial pressure from PGBS-related conditionality and dialogue would have not been there, nor would the dynamism and incentives created by the rapid expansion of expenditures routed through the GOU budget. Similarly, it is unlikely that as much progress would have been made on cross-cutting PFM reforms if only sector budget support had been used. The pre-existence of a domestically owned planning and budgeting reform process, combined with political commitment to fiscal discipline, allowed a virtuous circle that enhanced the systemic effects of PGBS. Without this initial impetus, it would have been much more difficult to make progress.

B5. The Effects of PGBS on Policies and Policy Processes

How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?

Introduction

B5.1 This chapter considers whether PGBS has contributed to improving public policy processes and policies. The causality chain to be explored is whether policy dialogue focused on key policy priorities (point 2.4 on the Causality Map), together with capacity development (2.5) and donor support through harmonisation and alignment (2.6), has encouraged and empowered the government to strengthen pro-poor policies (3.3) and resulted in sector policies that are more pro-poor (4.4) and more supportive of private sector development (4.2).

B5.2 The time scale for PGBS to have significant effects on policy processes can be expected to be longer than that for the immediate flow-of-funds effects of PGBS. Moreover, it is one thing to identify an influence on policy processes; quite another thing to judge whether the resulting policies are appropriate.

Relevant Facts: Policy Processes in Uganda

B5.3 At a technical level the policy processes of the GOU are highly visible, and donors have been explicitly incorporated into those processes to a very unusual degree. The underlying political drivers of policy are less visible but certainly not less important.

B5.4 Earlier chapters have described the emergence of the PEAP as a central policy document for both GOU and donors, and the development of budgeting and policy processes. Donors are not simply an external influence upon the policy process but day-to-day and year-to-year actors within it. They participate directly in standing committees and consultative bodies and ad hoc task forces; donor staff – more particularly those based in Uganda – have ongoing informal relationships with GOU officials across government; they provide technical assistance, and undertake and finance studies and reviews; and they attach conditions and performance indicators to their aid. It would be naive to believe that donor influence is unconnected to the GOU's reliance on aid finance. Nevertheless, most of the time, GOU and its IPs appear to be collaborators in a common project. Occasional frictions, however, reveal the limits of the relationship and the significance of deeper political factors.

B5.5 Various observers[26] have explained this partnership relationship in terms of particular conjunctions of factors in Uganda. Concerning the adoption of fiscally disciplined and market-oriented policies, Ddumba-Ssentamu et al (1999) note the absence or weakness in Uganda of the particular vested interests that have resisted such reforms elsewhere. Moncrieffe highlights the utility to the NRM of poverty reduction as a route to national unity, and sees a three-way alliance between the presidency/executive, MFPED, and the donors around the programme of development and modernisation which the PEAP embodies. The GOU is seen as strong on strategy, weak in implementation capacity, and therefore open to engaging the donors in a dialogue that is primarily about priorities, ways and means rather than fundamentals. The enterprise is a strongly technocratic one, in which the capacity of MFPED, linked to strong political support from the President, is pivotal. Within that context, donors may influence the

[26] See especially Ddumba-Ssentamu et al 1999, Moncrieffe 2004, Piron 2004.

balance (e.g. in helping MFPED to overcome resistance) and promote or accelerate certain reforms. MFPED has empowered sector policy processes through the MTEF system: sector ceilings are a constraint on sectors, but also provide bounds within which sector groups can prioritise and attend to special sector issues. Compared to other countries, sector processes have become particularly effective mechanisms of policy development and review in Uganda. At the same time, MFPED itself readily becomes directly involved in key issues, particularly when they are cross-sectoral: the Plan for Modernisation of Agriculture (MFPED 2000f) and the task infant and maternal mortality (Task Force on Infant and Maternal Mortality 2004) are two examples. Through most of the evaluation period MFPED's management of the PRSC process has been a further demonstration of its key role. The shift of PRSC coordination and monitoring responsibilities to the Office of the Prime Minister (OPM), though logical,[27] is seen by some observers as a sign that both MFPED and the coalition of President–MFPED–donors has weakened.

B5.6 The significance of deeper political factors is revealed in areas where IPs find they have less influence than some at least would wish to have. Thus, although the PEAP includes a governance agenda, friction has arisen over major issues that have a strong political dimension (defence budgets and regional conflicts, high-level corruption – which is often politics-related, see Chapter C5 – multi-party politics, and amending presidential term-limits). The GOU and donors have collaborated strongly over decentralisation, but the supremacy of political factors over considerations of technocratic efficiency is seen in the continual creation of new districts. As we discuss in Chapter B9, the ability of PGBS to operate effectively in future circumstances when political and developmental interests are less well aligned will be an important test of sustainability.

B5.7 During the evaluation period, two other sets of stakeholders – Parliament and civil society – have been outside the "inner circle" of President–MFPED–donors (see Piron 2004 for discussion of their involvement in the PEAP/PRSP process). Even with explicit party affiliations suppressed, there have been elements of opposition to the government within the legislature, and Parliament instigated the 2001 Budget Act which strengthens its own role, including giving them an opportunity to comment at budget framework paper stage and not only when the budget is formally presented for approval.

B5.8 It is important not to assume that the donors represent a single set of interests; there are different biases even within donor agencies (sector-focused staff may have different instincts from the generalists and economists more involved in the PRSC, for example); there is a range of interests among bilaterals, and the multilateral donors tend to be more circumscribed by their formal mandates than the bilaterals.

[27] See additional comments in Chapters B9 and C5.

Assessment against Evaluation Criteria

Influence on Reform Process

Ownership and effectiveness

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government...			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.9 The extent of GOU ownership of the PEAP-centred reform process has already been discussed (Chapter B1). It was not originated by PGBS, but the introduction of PGBS has been very significant in helping to maintain and develop the reform process by focusing donor attention on it. Focusing donor finance on it has also helped to increase coherence by reinforcing the interest of sector agencies in participating in these policy processes.

Participation

...in which, an appropriate range of stakeholders is involved in policy formulation and review			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.10 Some stakeholders are much more deeply and effectively involved than others, both in the processes most directly related to PGBS (notably in drafting and negotiating the PRSCs which are the leading edge of PGBS policy dialogue and conditions), and in the wider processes that address policies, plans and budgets at central, sector and local government levels. Nevertheless PGBS has tended to widen participation in a number of ways. Most immediately it has widened the range of bilateral as well as multilateral donors directly engaged in central as well as sectoral policy processes. The PEAP that it supports espouses a philosophy of participation and has provided forums in which civil society organisations have been able to contribute (though Piron notes the limits of the engagement, in terms of which organisations are invited, and the forums in which they are included). Donors have been influential both in seeking the involvement of civil society organisations (CSOs) and, in parallel to PGBS, providing them with funds and other support. Many CSOs have welcomed the move towards budget support, combined with their involvement within the dialogue and accountability processes. However, as time has gone on, they have become increasingly concerned about the government-dominated agenda, and often feel marginalised in the dialogue, feeling that they are only really present at the table because of the donors. Participatory Poverty Assessments have, within their limits, given a virtual voice to the poor. At the same time, greater donor involvement in policy processes has had some negative consequences, especially when it has tended to crowd out legitimate national stakeholders. Often Parliament has seemed, and felt itself to be, left rather on the sidelines (see Box B4.1 in the previous chapter).

Learning

...in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances			
General situation:	Level: **	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.11 The policy processes surrounding PGBS are certainly not sterile. It is not possible, or particularly useful, to ascribe exclusively to PGBS the learning and adaptation that takes place, but there are plentiful examples of significant policy development, and not solely related to the social sectors on which PGBS finance has been concentrated (e.g. the Plan for Modernisation of Agriculture (MFPED 2000f), the Medium Term Competitiveness Strategy (MPED 2000a) as well as monitoring and reviews that have led to adaptations of policy or implementation (the influence of the first tracking study (Ablo and Reinikka 1998) on the transparency of school grants is a famous example). It is significant that two of the policy moves that have had dramatic pro-poor effects – universal primary education (UPE)[28] and the abolition of health care charges[29] – were introduced unilaterally by GOU despite initial donor scepticism. Feedback and adaptation in the context of PGBS are further considered in Chapter B9.

Influence on Policy Content

Public and private sectors

...in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors			
General situation:	Level: *	Trend: +	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B5.12 Through its integration with the wider systems already described, PGBS has helped promote a more holistic view of strategy and a more coherent reform process across and within sectors. Arguably, however, it has tended to focus on public services delivered by government, with a relative neglect of private sector development. At the same time, it has provided a forum and instruments that can address cross-cutting issues more effectively, and concerns about the market and regulatory environment and about the balance between public and private sectors have increasingly found expression within the dialogue (see further discussion in Chapter C2 below).

Sector policies

...in which, appropriate sector policies complement public expenditures			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency:***	Confidence: ***

B5.13 It is beyond our scope here to offer a judgement on the quality of all the sector policies that PGBS has supported or helped to develop. However, the essence of the GOU policy, planning and budget systems that PGBS supports is to ensure an operational link between

[28] See Stasavage 2003 and Murphy et al 2002 on the democratic impetus for UPE and on the parallel factors that allowed the political commitment to be implemented.
[29] On the pro-poor effects of abolishing healthcare charges, see Deininger and Mpuga 2004b.

sector policy processes and expenditure decisions. This link is particularly strong in the SWAp sectors, but has had a demonstration effect on other sectors. In a context of rapid expansion of public expenditures, it is not surprising that efforts to expand services have predominated over complementary efforts to improve their effectiveness and efficiency (a point taken up in Chapter B7). Nevertheless, PGBS is clearly helping to strengthen the systems for simultaneous review of expenditure performance and associated policy implications, and thereby contains the seeds for rectification of the initial bias.

Principal Causality Chains

B5.14 The pivotal link in the causality chain set out in paragraph ¶B5.1 is "empowered and encouraged the government to strengthen pro-poor policies (3.3)". It is clear that PGBS has done this, in a context where the GOU had a pro-poor agenda to begin with. Effects in terms of policies that are more pro-poor are more tenuous, although PGBS has certainly helped to keep a focus on the poverty impact of policy and to review policies from that standpoint. Similarly, without necessarily concluding that existing policies are adequately supportive of private sector development (likely to be a controversial call in any case), it is possible to point to areas where consideration of private sector implications is becoming more salient, with support from the general PGBS dialogue in doing so (see more in Chapter C2 below).

Counterfactual

B5.15 PGBS did not create the reform process nor inaugurate the main thrust of pro-poor policies. The GOU's political concerns and MFPED's management agenda provided a context in which PGBS was able to be particularly and rapidly effective. Many specific policy initiatives have been supported through individual projects, but SWAp processes at sector level have been especially effective in linking policies to expenditures and developing coherent sets of sector policies, while PGBS has brought an added level of integration that would have been far more difficult in its absence. The dialogue and conditions (agreed performance targets) of PGBS played a positive role in refining policy and in providing additional impetus to key reforms.

B6. The Effects of PGBS on Macroeconomic Performance

How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?

Introduction

B6.1 This chapter relates to the transition from Level 2 (immediate effects) to Level 4 (outcomes) of the EEF. It will cover two streams of effects/PGBS inputs (i.e. all Level 2 immediate effects/activities as they relate to improved fiscal discipline and a growth-friendly macroenvironment) postulated in this framework.

B6.2 The main causal hypotheses to be tested are:

(a) that more external resources for the GOU budget (2.1), an increase in the proportion of funds subject to the national budget (2.2) and an increase in predictability of external funds to the national budget (2.3) result in improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6);

(b) that policy dialogue/conditionality focused on key public policy and public expenditure issues (2.4), TA and capacity development focused on key public policy and public expenditure issues (2.5) and IPs moving towards alignment and harmonisation around national goals and systems (2.6) lead to improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6).

Relevant Facts

B6.3 As we highlighted in the early chapters of this report, Uganda has a track record of fiscal discipline and macroeconomic stability which has been maintained throughout the evaluation period. Uganda has thus managed to maintain low inflation (see Figure 2A.1 in Annex 2). The emphasis on maintaining tight control over aggregate public spending, with the move to a cash budget, is central to this. The increasing predictability of aggregate expenditure against the budget is also an indicator of the nature of fiscal discipline (see Annex 4A for details). In addition, tight monetary policy has helped restrain inflation. Fiscal and monetary discipline was established well before the move to PGBS linked to the PEAP.

B6.4 The potential macroeconomic effects that can be attributed to PGBS depend on the degree to which PGBS adds to the total of aid or substitutes for other forms, and, if it is a substitute, the form of aid it is a substitute for. In Uganda there has been both an increase in aid and a relative switch by donors from project to budget support. Since the late 1990s there has not, however, been a significant rise or fall in the USD value of project support, and PGBS has mainly been a substitute for other types of programme aid, notably balance of payments support. Therefore, the main effect of PGBS, from a macroeconomic point of view, has been to increase the total volume of aid (its substitution for balance of payments support has little macroeconomic consequence).

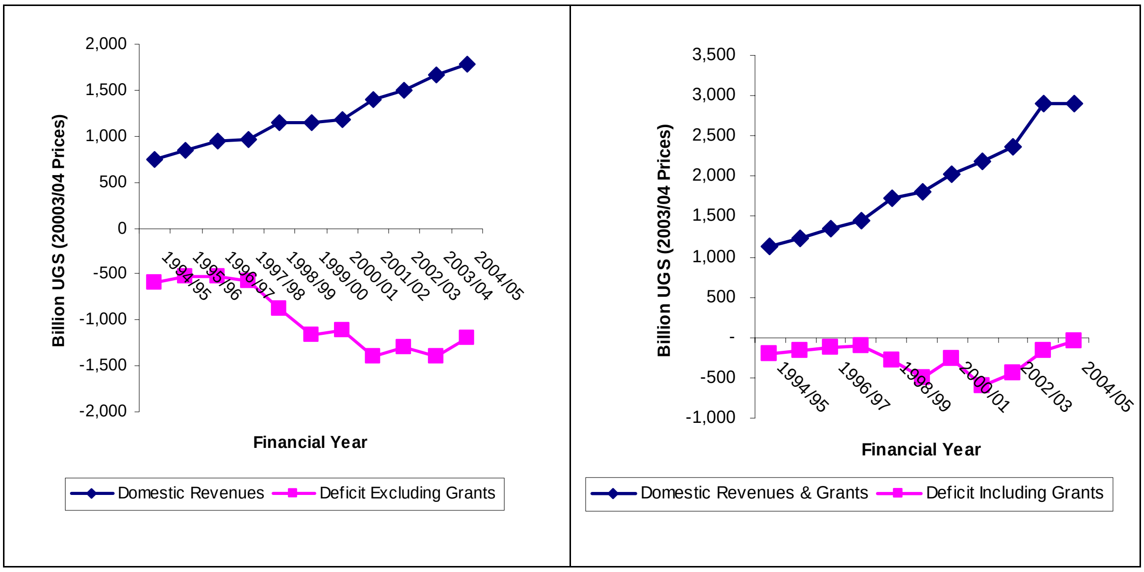
The fiscal deficit and aid

B6.5 Up to 1997/98 the budget deficit both including and excluding grants was reduced significantly (Figure B6.1). By that time the deficit amounted to UGS 600bn (2003/04 prices) or 6% of GDP, while including grants it was minimal at UGS 100bn or 1% of GDP. However, between 1997/98 and 2000/01 the deficit increased rapidly. By 2001/02, excluding grants, the deficit had more than doubled to UGS 1,400bn, or 12.2% of GDP. Correspondingly within three fiscal years the budget deficit including grants grew to UGS 600 bn or 5% of GDP.

B6.6 The expansion in the fiscal deficit corresponds with the increases in aid which gained pace in the late 1990s. In effect the budget deficit was initially a dependent variable which the Uganda authorities have managed in line with the availability of PGBS resources and other aid. Therefore, although the deficit reflects the paucity of domestic revenues relative to expenditure needs, since 1999 the deficit (both excluding and including grants) has expanded in response to the increased availability of aid fuelled by PGBS. Given the fact that domestic revenues have been relatively buoyant and expenditures have been increasing rapidly, this implies that increases in aid have been used to expand public expenditure, rather than as a substitute for domestic revenues.

B6.7 The macroeconomic effects of the large budget deficit are emerging as a key concern in Uganda. Since 2002, the GOU decided to limit the size of the deficit, due to concerns over its effects on the private sector, and it now aims to reduce it significantly over the medium term. Although the absolute value of the deficit excluding grants has not declined significantly, as a share of GDP it had fallen to less than 9% of GDP by 2004/05, while the deficit including grants has been reduced significantly in absolute and relative terms and was again well below 1% of GDP by 2004/05.

Figure B6.1: The Budget Deficit Excluding and Including Grants



Source: Ministry of Finance, Budget Speeches.

B6.8 Increases in foreign aid inflows have increased aggregate demand and liquidity in the economy, and this presents a challenge for macroeconomic management. In an economy such as Uganda, the supply response to an increase in liquidity is slow, and if increases in aid are not to be inflationary then the additional liquidity in the economy must be sterilised (see Box B6.1 below). This can be done either by selling foreign exchange or by raising domestic debt.

The first option results in pressures to appreciate the exchange rate, which will have, *ceteris paribus*, an effect of reducing Uganda's competitiveness, while the latter puts upward pressure on domestic interest rates, discouraging domestic private sector borrowing as well as incurring debt service costs to government.

Box B6.1: Liquidity Management in the Presence of High Inflows

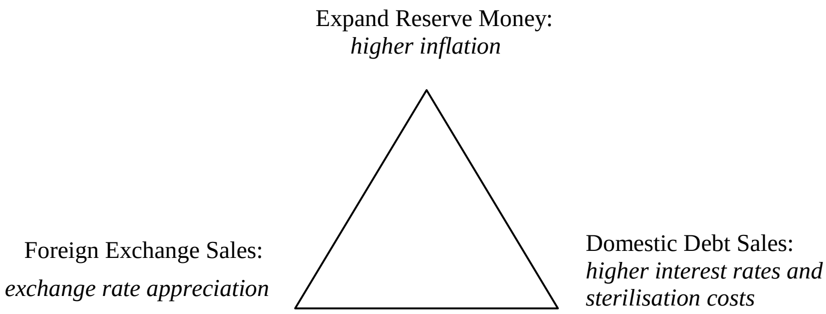
The following description by the IMF of the trilemma facing the Tanzanian authorities in managing high donor inflows is equally applicable in Uganda:

"Given the natural lag in the expansion of absorptive capacity, the surge in aid inflows and the resulting increased liquidity present challenges to monetary policy. On the one hand, aid inflows allow for increased investment and poverty reducing expenditures as well as boost domestic demand. On the other hand, the resulting rise in liquidity threatens the *central bank's* ability to meet its reserve money targets.

The challenge lies in effectively balancing the pressure on prices from increased liquidity versus the pressure on interest rates from the expansion of sterilisation operations, and on exchange rates from increased foreign exchange sales. For a given reserve money target, increased sales of foreign exchange may adversely affect export competitiveness through an exchange rate appreciation. Conversely, the use of domestic debt sales for sterilization may (i) put upward pressure on interest rates, crowding out credit for private sector investment and (ii) strain the *central bank's* balance sheet as it absorbs the interest it pays on domestic paper (and put pressure on the government's budget as the costs of sterilization are eventually borne there).

The appropriate *policy mix* between these options has consequences for prices, the exchange rate and/or interest rates, and ultimately for growth and macroeconomic stability. A successful monetary response is one that avoids a jump in interest rates, an overshooting of the exchange rate or a surge in inflation.

The trilemma: absorbing high inflows requires some combination of changes in inflation, interest rates and exchange rates



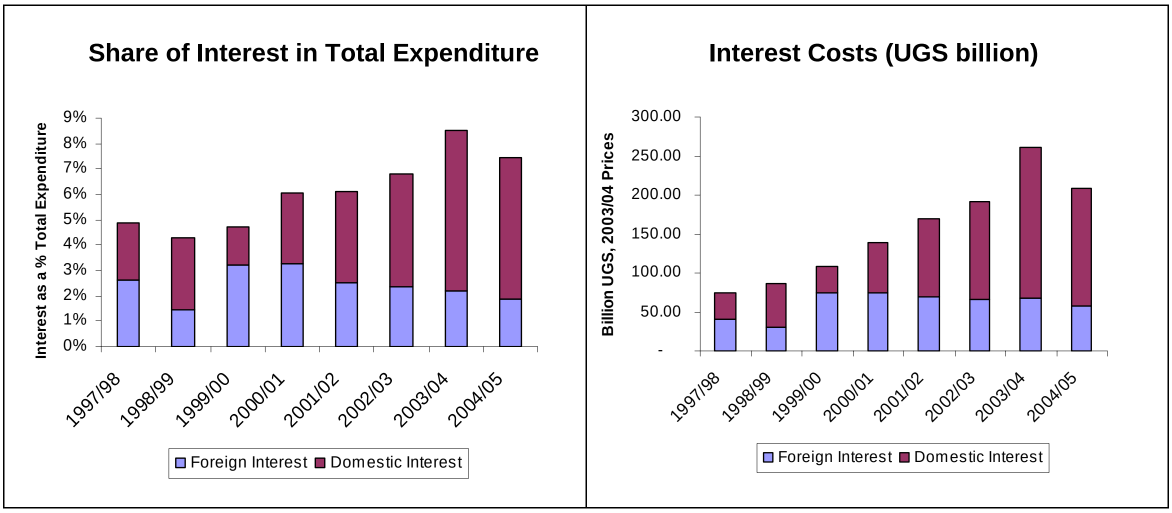
The challenges of liquidity management underline the importance of improving the supply response and absorptive capacity of the economy. In this context, key focus areas include improving the business environment, expanding the availability of bank credit, strengthening labour productivity, and addressing infrastructural bottlenecks, particularly in the areas of transportation, utilities, and telecommunications."

Source: IMF 2005.

B6.9 The Bank of Uganda, unusually, has judged that problems of adverse terms of trade (via exchange rate effects) are more serious than the effects of high domestic interest rates on the private sector, where, as we shall see, investment has been relatively buoyant. Therefore it has chosen a strategy which relies to a relatively high degree on sterilisation through the issuing of Treasury Bills, relative to selling foreign exchange.

B6.10 This increased sterilisation activity has led to the increases in domestic financing costs mentioned in Chapter B3. While interest on external debt has declined, domestic interest payments have exploded in recent years as shown in Figure B6.2. Interest payments have gone up six-fold in real terms, and quadrupled as a percentage of GDP from 0.5% to 1.9% of GDP, with nearly 75% of these payments being on domestic debt. This increase from 3% to 8% of expenditures, greater than expenditures on the health sector, represents a significant and increasing cost to government, and has been directly caused by an increase in the stock of domestic debt from 1% to 10% of GDP since 1999. It does, however, appear that the negative trend was stopped in 2005/06 with a slight decline in domestic interest payments.

Figure B6.2: The Increasing Cost of Budget Financing



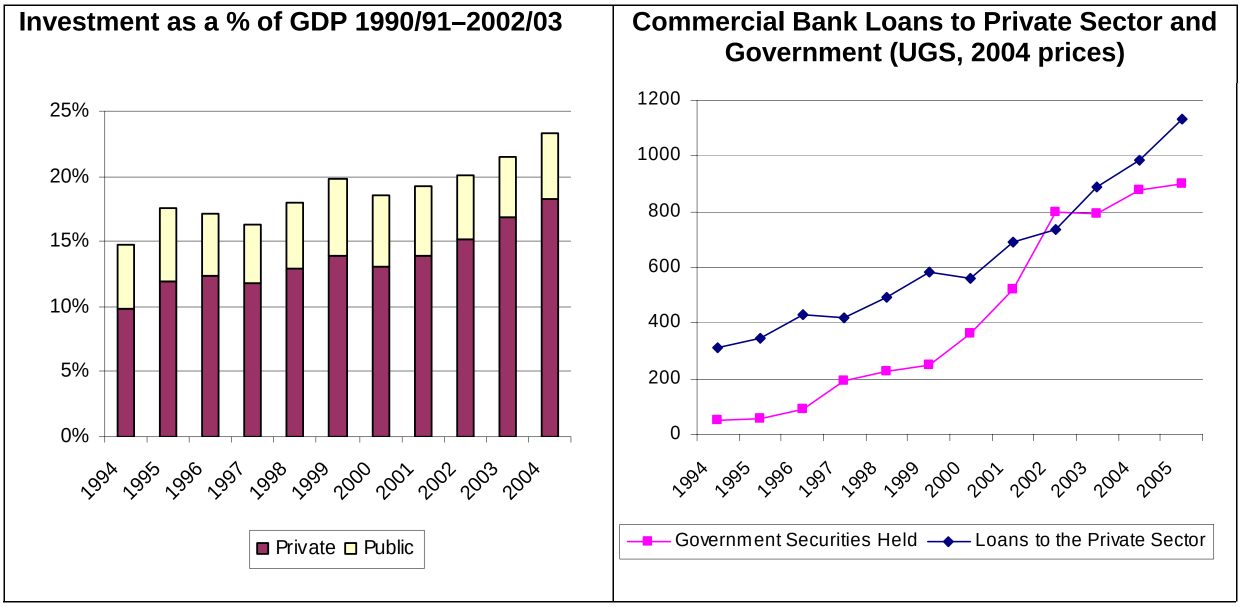
Source: MFPED Budget Speeches.

The dilemma – the effect of the deficit on the private sector

B6.11 The need for sterilisation is an indicator of a deeper problem of supply constraints and the need to increase the absorptive capacity of the Ugandan economy, and its ability to respond to increases in aid. This, along with the impact of the large fiscal deficit, is at the heart of the tension between growth of the public and private sectors.

B6.12 The GOU has had to weigh up the cost of high donor inflows in terms of (feared) upward pressure on real exchange rates and domestic interest rates on private sector investment and growth, relative to the benefits of increased aid. There is an ongoing debate in this area, with some arguing that aid is, overall, likely to have a net positive effect (Nkusu 2004, Bevan and Adam 2004). However, the GOU has taken the line that the deficit before grants should not be allowed to grow any further as a proportion of GDP, and aims to reduce it over time to 6.5% of GDP. Some development partners are concerned therefore that the GOU may be turning away aid that could accelerate progress towards the MDGs, but the Ministry of Finance takes the view that the adverse effect of the deficit on private sector growth would undermine the GOU's long-term ability to meet the MDGs.

Figure B6.3: Investment by and Bank Lending to the Private and Public Sectors

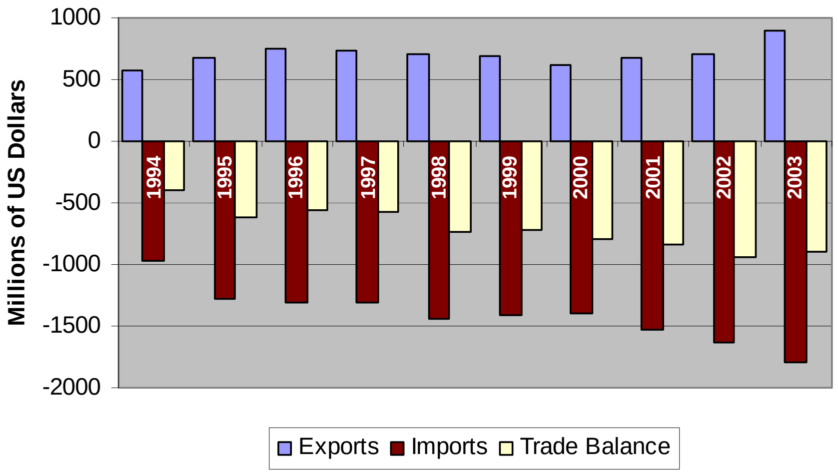


Source: Bank of Uganda.

B6.13 Meanwhile, investment has actually grown significantly over the last decade from 15% of GDP in 1994 to 23% in 2004. Most notably, private sector investment has steadily increased from 10% of GDP in 1994 to 18% in 2004 (see Figure B6.3), while public sector investment has stayed constant at approximately 5%. Commercial lending has more than tripled during the evaluation period, but commercial bank holdings in government securities have grown more in absolute terms, momentarily overtaking lending to the private sector in 2002, which indicates that commercial lending might have been even higher if there had been less sterilisation activity. Although public sector spending has grown as a proportion of GDP, public sector investment has stayed static at approximately 5% of GDP. This implies an increase in government consumption expenditure relative to investment. (But, as we saw in Chapter B3, the balance between recurrent and capital expenditures in GOU spending is now more appropriate; much of the increase in "public consumption" is actually the recurrent costs of a long-term investment in human capital through basic health and education services.)

B6.14 Similarly exports have been growing significantly (Figure B6.4). Export volumes have increased significantly over the past decade, with the export volume index registering a 240% increase between 1991 and 2001. As a proportion of GDP, exports remained relatively stable, at 10–12% of GDP early on in the evaluation period, although there are signs of a possible increase in share since 2000. A decline in export earnings in the 1990s reflected a marked deterioration in the terms of trade and, in particular, a decline in the price of coffee, Uganda's main export, since the mid 1990s. Since 2000 exports have recovered from USD 614m to USD 897m in 2003, which reflects the fact that Uganda has managed to diversify its export portfolio away from coffee since 1998/99, when coffee still represented 56% of export of goods. In 2002/03 coffee was only 21% of exports, with exports of fish, flowers, and tea growing rapidly. The sterilisation policy of the Bank of Uganda also appears to be working as in the last two financial years the terms of trade have not deteriorated as significantly, which also explains the recovery in the dollar value of exports. However, it is also likely that export volumes would have continued to grow even in the absence of the sterilisation policy. (For trends in the real effective exchange rate see Annex 2, Figure 2A.4.)

Figure B6.4: Uganda Trade Balance 1994–2003



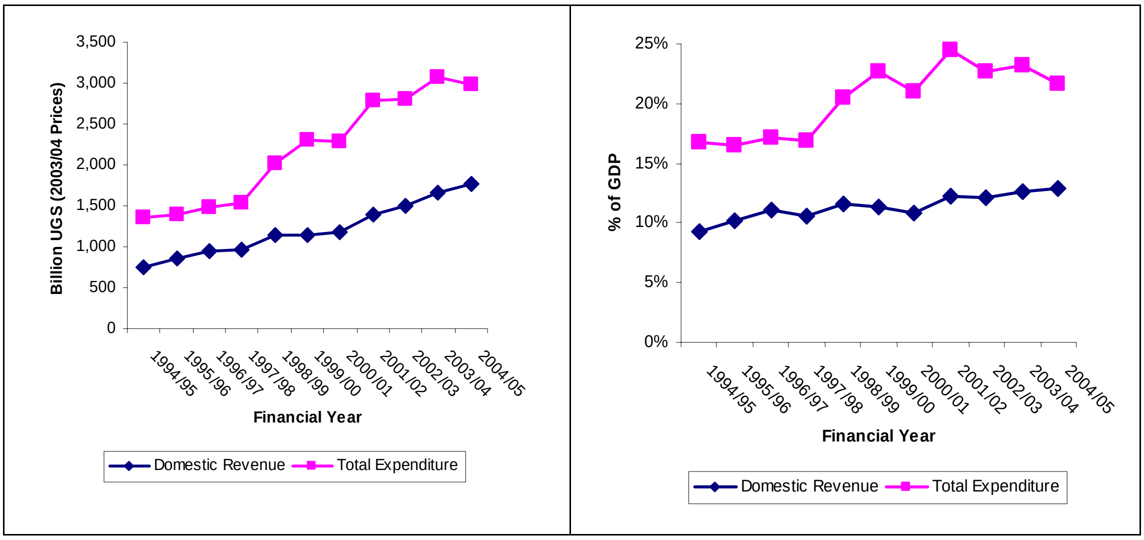
%GDP	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports	10.7%	10.9%	11.9%	11.0%	11.3%	11.4%	10.6%	11.7%	11.6%	13.8%
Imports	18.3%	20.8%	20.7%	19.7%	22.9%	23.2%	24.2%	26.1%	27.0%	27.7%
Deficit	7.5%	9.9%	8.8%	8.7%	11.7%	11.8%	13.6%	14.4%	15.4%	13.9%

Source: IMF IFS 2004.

Domestic revenues

B6.15 In the four financial years 1994/95 to 1997/98 domestic revenues increased faster than expenditures (Figure B6.5). Since 1998/99 revenues have been increasing far more slowly than expenditure, and less than half the increase in budget expenditures has actually been financed by domestic revenue. While between 1997/98 and 2003/04 the rate of growth in public expenditure was double that between 1994/95 and 1997/98, the rate in growth of domestic revenue actually slowed slightly from an average of 10.4% to 9.2%, but this still represents buoyant tax revenue. Until 1996/97 domestic revenues were increasing rapidly as a proportion of GDP, but domestic revenues stagnated at around 11% of GDP until 2000/01, after which they increased steadily to nearly 13% of GDP by 2004/05. This, combined with a slowdown in the increases in public expenditures since 2001, has contributed to the deficit falling as a share of GDP since 2002.

Figure B6.5: Public Expenditure Relative to Domestic Revenues



Source: Ministry of Finance, Budget Speeches.

B6.16 In 2005 the GOU suspended the Graduated Personal Tax, the major own revenue source for local government, without a replacement being introduced. This means that domestic revenue is almost entirely dominated by central collections by the Uganda revenue authority, and that local governments are now almost entirely dependent on central transfers.

Assessment against Evaluation Criteria

Macroeconomic Effects

Fiscal discipline and macroeconomic stability

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability			
General situation:	Level: ***	Trend: =	Confidence: ***
PGBS influence:	Effect: na	Efficiency: ***	Confidence:**

B6.17 In the early 1990s balance of payments support was crucial in enabling the GOU to re-establish fiscal discipline, by increasing foreign exchange and providing sufficient funds to enable the restructuring of public expenditures and the clearing of arrears.[30] The track record of fiscal discipline was a factor that encouraged the PGBS donors. Although PGBS cannot be credited with introducing fiscal discipline and macroeconomic stability, it has certainly been easier to maintain fiscal discipline in a context of increased budgetary resources than it would have been otherwise. Also, despite short-term unpredictability, the fact that donors have continued to provide PGBS over a five-year period (i.e. provided long-term predictability of the availability of the modality), without any sudden withdrawals, has helped ensure that PGBS has not had a destabilising effect on the macroeconomy.

[30] Although, as the evaluation of programme aid (Ddumba-Ssentamu et al 1999) made clear, the re-establishment of fiscal discipline was not a direct result of the conditionalities attached to programme aid, it played a facilitating role once the GOU became committed to fiscal discipline.

B6.18 PGBS has also helped to promote fiscal discipline and macroeconomic stability in more subtle ways:

- First, while PGBS disbursements have been unpredictable over the short term, it has facilitated longer-term aggregate expenditure predictability, by allowing the BOU to build a large stock of foreign exchange reserves. This facilitates cash management, and enables it to handle external shocks to the economy, as it is able to smooth the results of volatile foreign exchange inflows using reserves.
- The second way is through the other PGBS inputs. The fact that PGBS funding is linked to the GOU being on track with the IMF, and hence a successful dialogue with the IMF, still exerts some external discipline to the technical aspects of macroeconomic management. In addition there exists a macroeconomics working group, and TA is provided to the Macroeconomics Department in the MFPED by PGBS donors, which supports the technical capacity which is already significant.

Cost of budget finance

The extent to which PGBS funding has reduced the cost of budget financing			
General situation:	Level: **	Trend: –	Confidence: ***
PGBS influence:	Effect: perverse	Efficiency: na	Confidence: ***

B6.19 Although the majority of PGBS has been provided in the form of grants, PGBS in Uganda has, perversely, increased the cost of budget financing. The increase in aid flows to Uganda has resulted in an increase in the need for sterilisation, to avoid the inflationary impact those aid flows might have. The strategy the Bank of Uganda (BOU) has chosen (relying more on sterilisation by issuing government securities than on selling foreign exchange on the open market – see Box B6.1 above) has resulted in the increased cost of financing the budget.

B6.20 Insofar as PGBS has been a major source of the increase in aid inflows and therefore increased the scale of sterilisation needed, it can be said that PGBS has resulted in an increase in the cost of budget financing. However, in principle PGBS funds should be no harder to sterilise than project support and this is a feature of increased aid flows, not PGBS as such. The increases in domestic interest payments amount to an equivalent of 18% of the increases in PGBS between 1997/98 and 2003/04, which demonstrates a very large loss in efficiency (see Annex 4A for further discussion of the cost of budget financing).

B6.21 The dialogue on sterilisation has largely been conducted in the context of the IMF. While initially the IMF emphasised only the importance of maintaining monetary reserve targets through sterilisation, more recently the IMF has been encouraging the GOU to shift the sterilisation strategy towards foreign exchange sales and away from domestic borrowing.

Private investment

The extent to which PGBS funding of public expenditures has adversely affected private investment.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: *

B6.22 Public expenditures may affect private investment in the long term through their effects on public services and on the country's stocks of physical and human capital. In the short term, effects on interest and exchange rates and on the availability of funds for investment ("crowding out") may be more significant. Although private sector investment has increased throughout the evaluation period, high domestic interest rates undoubtedly have a dampening effect on private sector investment, although this is likely to be limited to formal, large-scale investors. High interest rates have in part been caused by increased inflows of aid, fuelled by PGBS. Weighing this up against the positive effects of public policy, including macroeconomic policy and the impact of public expenditures on the environment for private investment, is difficult.

B6.23 The fact that private sector investment and export growth are still strong suggests that the economic environment still is conducive to growth, although higher investment levels and exports might have been possible with a different policy mix. This issue is reviewed in more general terms in Chapter C2 below.

Domestic revenue

The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection.			
General situation:	Level: *	Trend: +	Confidence: ***
PGBS influence:	Effect: Not found	Efficiency: NA	Confidence: *

B6.24 There is little evidence to suggest that aid, or PGBS in particular, has dampened domestic revenue collection. There have been real increases in the tax take year on year, and, as noted, additional aid flows clearly translated into additional expenditures. Despite corruption in the Uganda Revenue Authority (URA) (Fjelstad et al 2003) and low tax/GDP ratio, it is not self-evident that performance is particularly poor (it can be argued that the structure of the economy and its land-locked situation result in a relatively low revenue potential). Moreover, it should be noted that the slowdown in the recovery of the tax to GDP ratio occurred well before the large increases in aid and PGBS in the late 1990s, while since 2002 there are signs of acceleration in domestic revenue mobilisation. It can also be argued that pressure from the dialogue contributed to recent reforms in the URA, which began to yield results in 2005.

B6.25 There is one exception, where it can be argued that PGBS has directly undermined domestic revenue collection. The rapid increase in conditional grants to local governments, in part fuelled by PGBS, has made it easier for the GOU to erode LGs' own revenue sources, notably the graduated tax; its suspension was announced in 2005 after years in which collection was politically undermined, although it was compensated by increases in other central taxes. While late in the day development partners did collectively oppose the withdrawal, many individual donor staff actually supported the government in withdrawing this tax because of its regressive nature, which gave unclear signals to GOU. The withdrawal ultimately is likely to undermine the sustainability and accountability of local government (see Annex 6).

Facilitating Institutional Change

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).			
General situation:	Level: ***	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: *

B6.26 The GOU's commitment to macroeconomic stability has been unstinting. This manifests itself in areas such as the maintenance of the policy of cash budgeting, and the robust sterilisation policies implemented by the Bank of Uganda. Underlying this commitment is strong leadership and improving technical capacity within the MFPED and BOU combined with an executive and Parliament that understood the need for fiscal discipline, having seen the costs of lapse in discipline in the early 1990s. This commitment to macroeconomic stability within the MFPED and the Bank of Uganda has also led to changes in institutional behaviour within other arms of government. Government spending agencies now accept top-down resource ceilings, and the need for controls to ensure that releases during the financial year are made on the basis of cash availability.

B6.27 A key emphasis of the MFPED leadership in the late 1990s was that stability was central to maintaining the confidence of the private sector. Sustained economic growth at 6% p.a. and increases in private investment from 10% to 15% of GDP must indeed have been in part due to macrostability being maintained, considering that there has been an environment of high interest rates and unfavourable terms of trade. The continuing availability of aid resources, and especially the discretionary resources provided through PGBS, has increased the credibility of the Uganda authorities and made it easier to combine macroeconomic discipline with the pursuit of other national objectives.

Principal Causality Chains

B6.28 With regard to both the causality chains examined in this chapter, it appears that PGBS did not originate the links. The crucial link in both chains is fiscal discipline (3.4), which was achieved before PGBS was introduced, and was a key factor in giving IPs the confidence to entrust GOU with discretionary resources. Programme aid in the early 1990s was instrumental in helping the GOU re-establish fiscal discipline. Subsequently, PGBS has had a supporting effect, by reducing the political cost of maintaining macroeconomic and fiscal discipline. Since PGBS is, ultimately, linked to continued satisfactory macroeconomic management, it can be seen as reinforcing the dialogue between the GOU and the IMF. Meanwhile the commitment to macroeconomic stability has been institutionalised within the BOU and MFPED, and also among parliamentarians and the executive, who do not question the need to maintain macroeconomic stability and fiscal discipline. In this context the overall effects of PGBS funds on the ability of the GOU to maintain fiscal discipline are moderate.

B6.29 The main area where PGBS has contributed to macroeconomic performance is through public expenditure, both positively and negatively. On the positive side it would have been difficult for the GOU to expand basic services and also maintain fiscal discipline without PGBS. The main negative effect is on private sector investment and growth, through the contribution of PGBS to the fiscal deficit, as PGBS has been used to increase public expenditure. Owing to the decision of the BOU to use Treasury Bills as the main instrument of sterilisation, increased aid flows are contributing to increased domestic interest payments, and this is likely to be undermining domestic private sector investment more than if sterilisation had been through selling foreign exchange. However, export growth has been more buoyant as a consequence of this decision. Meanwhile public expenditures have been more geared towards increasing social service delivery than promoting private sector investment through increasing productivity and reducing the cost of doing business.

Counterfactual

B6.30 Without programme aid in the 1990s, the re-establishment of fiscal discipline would have been much harder; nonetheless it is likely that GOU would have been able to maintain fiscal discipline from the late 1990s onwards without PGBS funding. On the other hand, without the support of the executive and Parliament, and strong institutional commitment and capacity within the BOU and MFPED, combined with structural adjustment reforms in the early 1990s, it is unlikely that, even with programme aid, the reforms would have been successful. The effects of PGBS in reinforcing fiscal discipline would not have been so strong if the equivalent volume of aid had been provided through other modalities; discretionary resources made it easier for the GOU to maintain discipline while applying resources to national priorities and improving the efficiency and sustainability of the balance between different components of public expenditure (Chapter B3). At the same time, many of the adverse (actual or potential) macroeconomic effects of PGBS are not specific to PGBS but apply to aid in general. At the same time, it can be argued that PGBS allowed a more rapid scaling up of aid flows than would have been possible through other aid modalities.

B7. The Effects of PGBS on the Delivery of Public Services

How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?

Introduction

B7.1 This chapter relates to the transition from Level 3 (outputs) to Level 4 (outcomes) of the EEF. The three main causal hypotheses to be tested in this chapter are that General Budget Support has:

(a) contributed to more and more responsive/pro-poor accountable service delivery (4.7), through increased resources for service delivery (3.1) leading to more resources flowing to service delivery agencies (4.3);

(b) contributed to more and more responsive/pro-poor accountable service delivery (4.7), by encouraging and empowering the partner government to strengthen pro-poor policies (3.3) and through the formulation of appropriate sector policies, which address market failures (4.4);

(c) contributed to more and more responsive/pro-poor accountable service delivery (4.7), by appropriate sector policies to address market failures (4.4) influenced by increased operational and allocative efficiency of the public finance management system (3.5/3.6).

Relevant Facts: Rising Quantity of Services, but Quality Concerns

Levels of service delivery and access for the poor

B7.2 The levels of social service delivery have increased substantially over the past decade in Uganda both in terms of availability and in terms of their uptake. This is illustrated in Table B7.1 for priority PEAP services between 2000 and 2004. The number of primary schools and their constituent classrooms and teachers has increased substantially. The same applies to the supply of health workers and health facilities and to the number of safe water facilities available in rural areas.

B7.3 There has been a simultaneous rise in the uptake of services. Figure B7.1 shows how the levels of services have increased in education and health. In 1997 primary enrolment doubled overnight with the introduction of universal primary education (UPE), from 2.5 million to 5.3 million. Outpatient attendance jumped by 40% with the abolition of user fees in 2002. It was the introduction of free services in health and primary education which had the largest impact on the uptake of services, not the increasing supply. However, even after those major policy events the level of uptake continued to rise, indicating a response to the increases in supply of services – by 2004 primary enrolment was 6.8 million and outpatient attendance had increased a further 30%.

Table B7.1: Levels and Coverage of Service Delivery

Primary Education	**2000**	**2001**	**2002**	**2003**	**2004**
Teachers on payroll	82,148	101,818	113,232	121,772	124,137
Number of Classrooms	50,370	60,199	69,900	73,104	78,403
Pupil Teacher Ratio	65	58	56	56	54
Pupil Classroom Ratio	106	98	94	94	85
Net Enrolment Rate	86%	87%	85%	87%	89%
Enrolment Growth rate	-	11%	11%	4%	-2%
Primary Healthcare					
Outpatient Visi ts per Person	0.40	0.43	0.60	0.72	0.79
% DPT3 Coverage	41%	48%	63%	84%	83%
% Approved Posts Filled	33%	40%	42%	66%	68%
% Deliveries in Health Unit	25%	23%	19%	20%	24%
Safe Water					
Rural W ater Coverage	50%	54%	55%	58%	60%
Agriculture Extension					
Households visited by Extension Worker	29%				14%
Rural Roads					
% Households Living < 1 km from a road					85%

Source: Ministry of Education, Ministry of Health, National Service Delivery Survey 2004.

B7.4 There is clear evidence that access by the poor has improved in education, health, and water services. Net primary enrolments have remained nearly 90%, which implies that the majority of the poor are in school, although dropout rates are high. There is clear evidence that access by the poor to health services has improved since the abolition of user fees, as found by Deininger and Mpuga (2004b):

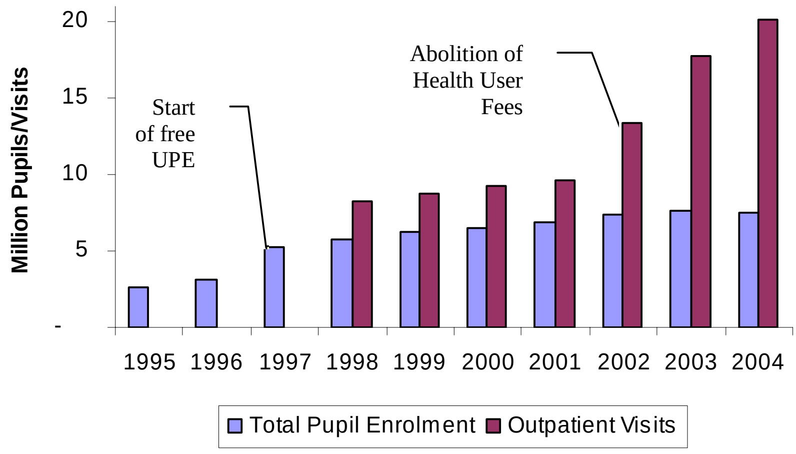
> We find that the abolition of user fees significantly improved access to health services especially by the poor whose health spending (at the household level) is significantly lower after the policy change as compared to the situation before.
>
> … the impact of the policy change seems to have been strongly pro-poor: the percentage increase of those who visited a hospital when sick was, with 12 and 14 percentage points, highest for those in the bottom two quintiles, compared to less than 6 percentage points for the top quintile.

B7.5 However, there are some questions over the effectiveness of targeting of investments to the poor, especially in water and sanitation where decisions over the geographical location of water points (MFPED 2002(d), Kanyesigye et al 2004) are often inequitable. Nevertheless, the National Service Delivery Survey does point to a reduction in the average dry-season distance walked to collect water, from 1.5 km in 2000 to 1.1 km in 2004.

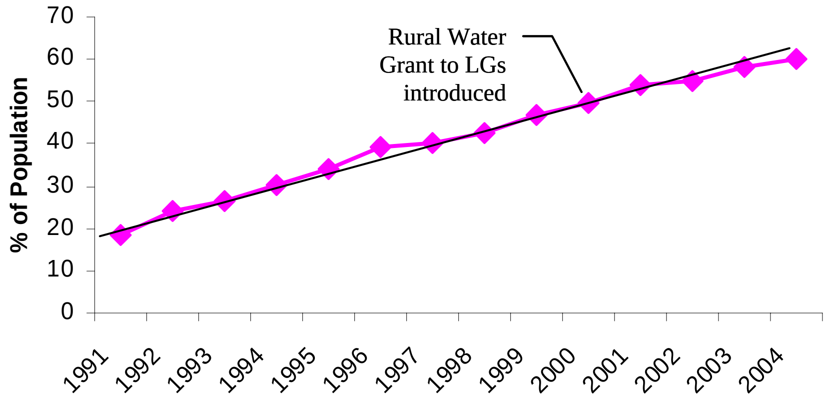
B7.6 The scale of increases in service delivery has not been as marked in the productive sectors, although access to roads is also good, with 85% of households reporting that they are within 1 km of a road, and 77% of roads reported to be usable all year round (2004 National Service Delivery Survey). Despite the recruitment of graduate extension workers countrywide between 1998 and 2000 and the introduction of the National Agricultural Advisory Services (NAADS), as part of the Plan for Modernisation of Agriculture (PMA), the picture in the agriculture sector is not so positive. In the National Service Delivery Survey the proportion of households which reported being visited by extension workers in the past year had halved between 2000 and 2004, from 29% to 14%.

Figure B7.1: Increasing Access to Basic Social Services

Primary Healthcare and Education



Increasing Rural Safe Water Coverage

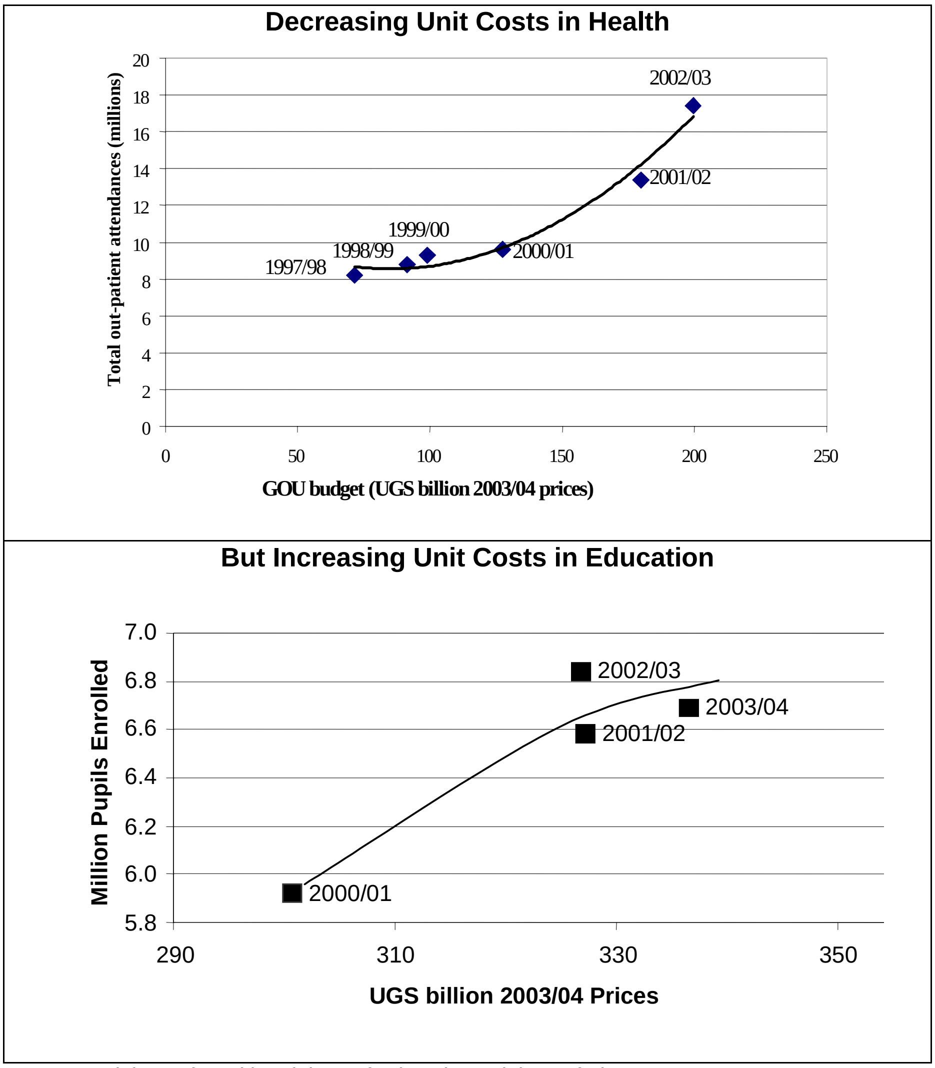


Source: Ministry of Health and MOES Annual Performance reports.

Efficiency and effectiveness of services

B7.7 There is evidence in some sectors that efficiency is improving. For example, in the health sector it is possible to demonstrate that the uptake of services is rising more quickly than budget expenditures, which would imply an increase in efficiency (see Figure B7.2 below). The channelling of government funding to private not-for-profit (PNFP) providers in health was one explicit public expenditure policy, which was aimed at taking advantage of the greater efficiency in that sub-sector, but there is concern that this opportunity is no longer being taken advantage of in full (see Chapter C2). Since the introduction of UPE in 1997, the unit cost of primary education has remained relatively constant until recently; there is evidence that per capita spending is now increasing, but this is likely to reflect efforts to improve quality through increasing the inputs in terms of teachers, textbooks, and classrooms per pupil.

Figure B7.2: Efficiency of Health and Education Services



Source: Ministry of Health, Ministry of Education, Ministry of Finance.

B7.8 However, this is not the case in all sectors. For example, in water and sanitation although the rural water sub-sector may be maintaining efficiency, the efficiency of water services overall is declining. In 2004/05 only 40% of sector funding was allocated to rural areas, despite the fact that 87% of the population live in them. While over 60% of the GOU's own resources (i.e. excluding donor projects) were spent on rural water supply in 2004/05, and the majority of that (88%) is channelled directly to districts, donor projects were focused more on the urban sector, where per capita investment costs are far higher.

B7.9 Small-scale infrastructure delivery through local government systems has proved relatively efficient compared to separate projects. Although there are legitimate concerns about quality, there are also concerns about the appropriateness of government standards for infrastructure, which may be higher than necessary to achieve service results. For example, local governments (LGs), when using their own revenues or discretionary revenues from the Local Development Grant, tend to build lower quality structures than those financed by conditional grants, but at a far lower cost (see Annex 6).

Table B7.2: Very Low Quality in Healthcare and Primary Education

	1999/00	2003/4
Proportion of approved posts that are filled by trained health personnel	33%	68%
Percentage of facilities without any stock-outs of chloroquine, ORS, cotrimoxazole and measles vaccine	29%	60%

Source: Ministry of Health 2004.

	2000	2004
Literacy P3	18	38
Literacy P6	13	30
Numeracy P3	29	41
Numeracy P6	42	43
Survival Rate to P5	88	52

Source: Ministry of Education 2004.

B7.10 Most importantly, however, there are concerns about the quality of delivery in the major social sectors of health and education. In primary education the quality of education suffered after the introduction of UPE, when class sizes shot up, and the ratios of pupil to textbooks and classrooms worsened markedly. The abolition of user fees in health also resulted in problems in the supply of drugs, with stock-outs of medicines increasing, and concerns over the effect on the motivation of staff. Poor quality manifests itself in terms of high drop-out rates in primary education, while the lack of impact of increased access to health services on health outcomes points to problems in the quality of services there. There is some evidence which points to gradual improvements in quality being realised in both sectors, such as the increased number of posts filled in health facilities, and slight improvements in literacy and numeracy outcomes. However, there is a long way to go before satisfactory levels of quality are reached.

B7.11 The fact that the grant system is relatively equitable across local governments means that their inputs for service delivery are also fairly evenly spread across the country. However, there are large variations in sector outcomes and outputs across local governments. For example, in 2004 net enrolment rates were as low as 37% in some districts in primary education (Ministry of Education 2004), while outpatient attendance varied from just over 0.4 visits to over 1.4 visits per person (Ministry of Health 2004). There are therefore large variations in efficiency and quality of service delivery across the country. Although this may in part be due to external factors such as the war in the north of Uganda, it also points to large variations in local government institutional capacity to deliver services as well as the need to improve equity of resource allocations further.

B7.12 In most sectors the strategies for improving the quality of service delivery have focused on increasing the supply of inputs. The variation in quality of delivery across local governments emphasises the importance of building strong, accountable service providers, and local governments as managers of those service providers.

Assessment against Evaluation Criteria

Pro-poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B7.13 As described in Chapter B3, PGBS has helped to pay for an expansion of the funding for pro-poor service delivery, most visibly through the PAF and SWAp mechanisms. This has resulted in increases in the quantity of services, and consequently also the access to services of poor people, especially in terms of primary education, primary healthcare services and access to safe water. The targeting of some services, such as water and agricultural advisory services, may not be particularly pro-poor, but the poor have undoubtedly benefited.

B7.14 Chapter B3 also showed how, through its flexibility, PGBS has allowed more efficient and effective resource allocation for service delivery. One way this manifests itself is in increased expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending. Funding more teachers and health workers, textbooks and drugs, alongside investments in those sectors, has promoted efficiency as well as effectiveness, although recent trends may be undermining earlier efficiency gains. In addition, the high level of earmarked funding combined with parallel planning mechanisms in local governments makes it difficult for local governments to link their investment and recurrent expenditure decisions effectively.

B7.15 More importantly, these positive statements must be tempered by the fact that the quality of many services remains very low, and that PGBS has not been effective in significantly upgrading the quality of service delivery in health and education in particular. At a sector level the focus of quality improvements has been on increasing the supply of inputs, and not the capacity of delivery institutions.

B7.16 Policy decisions have been central to explaining trends in the uptake, quality and effectiveness of public service delivery. The two major decisions of free UPE and healthcare, which have resulted in greater uptake of services by the poor but also the initial decline in quality, were primarily political decisions (responding to popular concerns that clearly influence democratic elections[31]). The UPE decision preceded PGBS, but the abolition of user fees in health was made outside the bounds of the donor–GOU dialogue in the context of PGBS, and actually was greeted with scepticism by the donor community. In these circumstances the PGBS influence was indirect – it made the policies more feasible by expanding the available public resources, while dialogue and technical assistance has helped strengthen policy implementation.

B7.17 In answering the questions in this chapter, it is difficult to distinguish specific PGBS non-financial inputs from those delivered outside the framework of PGBS (by PGBS donors or by other donors), especially at the sector level. Dialogue and TA/CB linked to full PGBS relates mainly to PFM (especially accounting systems) and to the central ministries of GOU, including the Ministry of Local Government (see below). Given the way that sector plans and sector dialogue are linked to the broader frameworks of the PEAP, MTEF and the PRSC, it is legitimate to take TA and CB implemented in the context of SWAps into account in the context of PGBS.

[31] See, for example, Stasavage 2003.

B7.18 Policy dialogue and TA, at the sector level, have supported central government to develop more coherent policy frameworks for service delivery and develop clearer strategies. The core functions where central capacity has been strengthened have been in terms of strategic planning, policy formulation, and resource allocations, in the context of sector wide approaches, and this has helped improve the appropriateness of resource allocation. Just as the rapid growth in resources has led to an understandable focus on expansion more than on the efficiency of provision, so the dialogue and conditionality around quality of delivery has tended to focus on planning and delivering an adequate supply of inputs. This has been at the expense of strengthening the systems and incentives for effective delivery, as we describe below.

Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: *	Confidence: **

B7.19 The major institutional change in service delivery in the past decade has been the introduction of decentralisation, which provided for devolution of political, fiscal and administrative powers. The 1995 Constitution and 1997 Local Government Act made districts and municipalities responsible for delivering most basic services. Crucially, local governments were given full responsibility for recruitment and staff management, apart from the administration of the payroll itself.

B7.20 Decentralisation began just prior to the introduction of PGBS, but the major increases in funding to local governments which accompanied HIPC debt relief and PGBS were crucial in changing the balance of power between central government and local delivery organisations, and in empowering local governments and their constituent providers to deliver services. The vast majority of PAF programmes are implemented by local governments. The prioritisation of specific local government conditional grants in the PAF (reinforced by notional earmarking) meant that the GOU was able to expand allocations to LG service delivery faster than the rest of the budget. These increases were the single biggest factor in capacitating local governments to deliver services. However, as we discuss in more detail in Chapter C3, capacity development efforts have tended to lag behind the financial responsibilities assigned to local governments, and the potential complementarity between PGBS financial and non-financial inputs has not been fully exploited. This accounts for our overall assessment of the PGBS effect so far in strengthening the *sustainable* capacity of service delivery institutions as weak.

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General situation:	Level: *	Trend: +	Confidence: **
PGBS influence:	Effect: *	Efficiency: *	Confidence: **

B7.21 There have been some improvements to the responsiveness of services to beneficiaries, but their extent is difficult to assess. It has been an ongoing challenge to reconcile the wish to ensure local government compliance with national targets and the aim to ensure sufficient local autonomy to enable responsive delivery. High levels of conditionality and vertical accountability mechanisms associated with local government funding under SWAps give local government little space to alter sector funding allocations, especially in the recurrent budget. However, local government planning and budgeting processes have become more participatory, and due to the discretionary nature of the Local Development Grant, local governments have significant autonomy in the distribution of sector investments as well as of new services, and therefore have significant scope to be responsive in this respect.

B7.22 Within sectors, there have been numerous initiatives to address client–provider relationships. Actions such as publishing transfers at schools and in the newspapers (which commenced prior to PGBS) have helped reinforce accountability in the delivery relationship, and been extended to other sectors. The health sector is introducing a system of grading health centres and provides league tables of district health performance. The institution of Health and School Management Committees, Water User Authorities (all prior to PGBS), and Farmers' Forums have involved the beneficiaries in delivery. However, the effectiveness of these initiatives has been questionable. This is not because they are poorly conceived ideas, but largely because they have been given inadequate support in implementation. The lack of attention provided to these potentially important allies in enhancing delivery quality and accountability is reflected in their almost entire absence from sector dialogue and reporting. Meanwhile the policy decisions to abolish user fees, despite their positive effects on equity and access, weakened the relationship between users and providers and the incentives for provider staff to respond to beneficiaries.

Principal Causality Chains

B7.23 As regards the three causality chains set out in ¶B7.1:

(a) PGBS has certainly contributed to more resources for service delivery (3.1), and to an increased flow of resources to service delivery agencies (4.3). (Both these points were established in Chapter B3.) These services have benefited the poor, but there is less evidence that they have become significantly more responsive and accountable to beneficiaries, although this is a topic that increasingly features in general and sector dialogue.

(b) The GOU's stated policy objectives (PEAP and sector strategies) embrace the objective of pro-poor accountable service delivery (4.7); here there is coincidence rather than causality between the GOU and donor objectives. PGBS finance has empowered the GOU to realise these policies to an increased extent (3.3), but, so far, service expansion has predominated over attention to quality and changes in accountability relationships. Nevertheless, the planning and budgeting system has strengthened processes of policy review (4.4), and PGBS has helped to reinforce this system (see Chapters B4 and B5).

(c) Chapter B3 has already demonstrated the effectiveness of the additional link in the third chain (3.5/3.6 – increased operational and allocative efficiency of the public finance management system).

B7.24 The most significant institutional change has been the shift of power and resources to the district level (dealt with at length in Annex 6), in which PGBS finance was crucial. The degree to which local government programmes have been pro-poor largely depends on sector policy; the policy decisions which have had the greatest impact on delivery of services to the poor have come from outside the framework for policy dialogue, conditionality, TA and CB. There is potential for much more attention to service delivery and accountability relationships in future, both in relations between central and local agencies of government and in the relations between front-line service delivery agencies and their various stakeholders.

Counterfactual

B7.25 Without the initial development of the PEAP and sector strategies prior to the introduction of all types of PGBS, it is unlikely that the increase in levels of service delivery would have occurred, because the framework for expanding delivery would have not been in place. Conversely (for reasons already discussed in Chapter B3) the increase in service delivery that did take place would not plausibly have been so dramatic if it had relied primarily on project or sector modalities alone. At the same time there has been complementarity between modalities, particularly in the area of TA/CB, although the lack of coherent TA/CB strategies has so far limited the potential gains from focusing on the capacitation of government systems.

B8. The Effects of Partnership GBS on Poverty Reduction

How far has PGBS strengthened government impact on poverty?

Introduction

B8.1 This chapter relates to the transition from Level 4 (outcomes) to Level 5 (impacts) of the EEF. The four main causal hypotheses to be tested in this chapter are that PGBS has:

(a) led to the empowerment and social inclusion of poor people (5.3), through more, and more responsive, service delivery (4.7);

(b) reduced income poverty (5.1), through increasing the scope for a more conducive growth-enhancing environment (4.6);

(c) reduced non-income poverty (5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of strengthened governmental incentives (3.7) and partner governments empowered to strengthen systems (3.2);

(d) reduced non-income poverty (5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of enhanced democratic accountability (3.8) and partner governments empowered to strengthen systems (3.2).

B8.2 Information on poverty outcomes is necessary but not sufficient for testing these hypotheses. At the level of impacts, there are many influences on poverty besides government action, and there is the further challenge of assessing to what extent government action has been influenced by PGBS. Before turning to these challenges of analysis and attribution we provide a brief overview of what is known about poverty outcomes in Uganda over the evaluation period.

Relevant Facts

B8.3 Partly because poverty has been a central political concern at least since the first PEAP was conceived, Uganda has a significant range of poverty data. The principal sources on trends in household poverty are the national household surveys, but these have been complemented by a range of other quantitative and qualitative surveys, including the Participatory Poverty Assessments (PPAs) under the UPPAP programme,[32] and more specific surveys related to service delivery and aspects of empowerment – public expenditure tracking surveys (PETS), National Service Delivery Survey, National Integrity Survey, etc.[33] The second national household survey, with data for 2002/03, created considerable interest, and controversy, because it found a reversal in poverty reduction since the first national household survey (1999/2000 data). The subsequent debate is continuing, and focuses on issues about the robustness of the latest data (despite Uganda's poverty data having been praised in the past) as well as possible explanations for the trends they suggest. The most recent comprehensive review of these trends is the World Bank's Poverty Assessment.[34] The 2004 PEAP also explicitly addresses the issues of data and trends. The WB Poverty Assessment casts doubt on the validity of the results from the first national household survey (arguing, notably, that there are

[32] Reports are available at http://www.finance.go.ug/Uppap%20redesigns/reports.htm.
[33] See MOES 2004 for the public expenditure tracking survey on UPE; UBOS 2004; Inspectorate of Government 2003.
[34] We referred to the June 2005 draft.

inconsistencies between data on expenditure and assets). Although other analysts dispute this interpretation, there is less doubt about a trend towards growing inequality, which detracts from the poverty-reduction effects of economic growth.

B8.4 We are not in a position to adjudicate this debate, but it is worth noting: (a) that the faltering in poverty reduction is certainly a cause for concern; (b) the debate over statistics reinforces the point (which we take up in Chapter B9) that reliable outcome/impact data are infrequently available at the best of times; (c) that the justification, or otherwise, of PGBS does not turn on these data, since, even in theory, the causal connections from public expenditures to income poverty over such a short period are tenuous; but (d) to the extent that the GOU and donors have claimed credit for favourable poverty trends in the past, they should not be surprised at criticism when the tide of good fortune turns.

B8.5 Table B8.1 summarises the snapshots of poverty from successive PEAPs, while Table B8.2 summarises headline data on poverty. The proportion of Ugandans below the national poverty line fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003. There are significant regional variations, with poverty remaining exceptionally high in the conflict-affected north.

Table B8.1: Perspectives on Poverty in Successive PEAPs

	PEAP1 (1997)	PEAP2 (2000)	PEAP3 (2004)
State of poverty	➢ 44.0% of population below poverty line (data source: monitoring survey). ➢ Poverty on declining trend (income poverty down from 56% in 1992). ➢ Strong momentum for continued decline; farmers (especially those growing coffee) benefiting from liberalisation.	➢ 35.2% of population below poverty line (data source: first National Household Survey). ➢ Continued strong momentum for poverty reduction. ➢ Also based on updated qualitative information on poverty from the Participatory Poverty Assessment.	➢ 38.8% of population below poverty line (data source: second National Household Survey). ➢ Slight increase in income poverty. ➢ Other measures of welfare – value of assets, ownership of specific items, access to services continue to show large improvements.
Inequality (Gini)	➢ 0.347: on a declining trend compared to 0.36 recorded in 1992.	➢ 0.395: worsening inequality diluting the benefits of growth.	➢ 0.428: continued worsening of inequality leading to increased poverty.
Economic growth	➢ Steady fast growth averaging 7.6% over 1992/93–1997/98 and about 10% in 1994/95–1995/96.	➢ Continuing fast growth averaging 6.5% over 1998/99–1999/2000.	➢ Declining tempo of growth: 5.6% over 1999/2000–2002/03. Growth in 2002/03 alone about 5%.

Source: adapted from WB Poverty Assessment Report (draft June 2005), Table 5.1.

Table B8.2: Headline Poverty Data 1992–2002/03

% below poverty line	1992	1993/94	1994/95	1996	1997/98	1999/2000	2002/03
National	**55.7**	**51.2**	**50.2**	**49.1**	**44.4**	**33.8**	**37.7**
Rural	*59.7*	*55.6*	*54.3*	*53.7*	*48.7*	*37.4*	*41.1*
Urban	*27.8*	*21.0*	*21.5*	*19.8*	*16.7*	*9.6*	*12.2*
by regions							
Central	*46*				*28*	*19.7*	*22.3*
Western	*53*				*43*	*26.2*	*31.4*
Eastern	*59*				*54*	*35.0*	*46.0*
Northern	*72*				*60*	*63.7*	*63.6*
Gini coefficient							
National	.36	.35	.36	.37	.35	.39	.43

Source: PEAP3, drawing on papers by Appleton and Appleton and Ssewanyana.
Note: Data for 1999/2000 and 2002/03 exclude the most conflict-affected districts of the north.

B8.6 Concerning service delivery, previous chapters have already documented the expansion of basic public services for which PGBS has been an important support. Box B8.1 summarises the draft Poverty Assessment's conclusions on the extent to which the incidence of these services has been pro-poor. The conclusions are based on imputed benefits: household survey reports on the use of services are linked to data on costs of services to estimate incidence. The authors warn that this approach does not capture issues of quality. There are known to have been significant quality declines in primary education and, to a lesser extent, health services. These affect the value, if not the share, of benefits received by the poor (and other users).

Box B8.1: Poverty Assessment Conclusions on Benefit Incidence of Public Services

Inequalities in the distribution of public expenditures for health and primary education, particularly along income/welfare rankings and gender, have been greatly reduced after the abolition of user charges and the supporting policy environment in these sectors. However, other constraints such as distance and transportation costs and poor quality of services still hamper the effective use of these services by the poor, especially in the health sector. The absence of similar public interventions at the secondary level of education will need to be addressed in order to achieve equal distribution of these benefits, so as to promote equitable development and poverty eradication. Expenditures on increasing access to safe water have also been progressive, but large inequities remain in access to protected water sources. Future efforts need to target rural areas. Large income inequalities remain in access to agricultural extension and advisory services, a problem given that the poorest are agricultural households. The tax system has not been very progressive as implemented. The government's new land policy, while potentially a major improvement, as implemented does not adequately protect vulnerable groups.

Overall, government actions to implement the successive PEAPs have been in a pro-poor direction, but much more remains to be done. Limited resources are one obstacle, especially in the education sector. However, other obstacles include the effect that sectoral policies and practices have on the quantity and quality of services received by the poor. These are the challenges for the next stage of poverty reduction.

Source: WB draft Poverty Assessment (June 2005), ¶6.43–44.

B8.7 The empowerment dimension of poverty reduction is harder to measure, both conceptually and practically. However, the Participatory Poverty Assessments (PPAs) in particular have provided important insights into how this dimension is perceived by the poor themselves. Most notably, conflict-related insecurity is the major source of disempowerment (the war in the north and the effects of cattle raiding from Karamoja are the principal instances). There are significant gender dimensions (women are disempowered by unequal gender relations, and the benefits of marketing agricultural products tend to be disproportionately captured by men). The major "empowering" reform – at least in its intent – has been decentralisation, with its aim of giving more voice to local communities across the country, and making public service providers more responsive to local service users.

Assessment against Evaluation Criteria

Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including: (a) the use of health, education and other basic services by poor groups.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B8.8 Previous chapters have shown that PGBS has made a major, and efficient, financial contribution to the expansion of basic public services. Survey evidence indicates that the access of the poor to these services has improved and inequalities in the distribution of public expenditures have been reduced. The dialogue and H&A efforts linked to PGBS have also served to reinforce the strategy of expanding pro-poor service delivery. However, the value of services extended to the poor is reduced by their low quality.

Income Poverty

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including: (b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B8.9 Assessing the impact of PGBS on income poverty is more difficult. As we have noted, there is some controversy over precise trends in income poverty. The draft Poverty Assessment's conclusion on household level determinants of poverty and vulnerability is:

> Over the last decade, Uganda has made great strides in improving household welfare. The key elements seem to be: (a) a better economic climate for households engaged primarily in agriculture; (b) provision of infrastructure which facilitated the development of the informal non-farm sector; (c) formal sector job growth; and (d) major improvements in access to publicly financed and provided services.

B8.10 Programme aid facilitated macroeconomic stabilisation and the liberalisation reforms of the early 1990s, which boosted income growth. PGBS began with this policy framework already in place, but through flow-of-funds effects, PGBS has been supportive of a generally positive macroeconomic environment. Beyond this, the impact on incomes has been limited (although it has supported increased public expenditures in rural areas). However, its non-financial inputs – in particular its role in, and contribution to, highlighting the poverty implications of economic policy – have been significant in fostering policy reviews in which PEAP3 has recognised the need for future poverty reduction strategy to pay more explicit attention to income generation and pro-poor growth.

Empowerment

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including: (c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision-making, or improvements in the administration of justice.			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect:*	Efficiency: **	Confidence: **

B8.11 PGBS has supported participatory approaches to poverty analysis, as well as various initiatives to give service beneficiaries more control over the services they receive. PGBS has provided a major boost to decentralisation; this has certainly extended the political voice and participation of Uganda's citizens, although it should not be assumed that this is automatically pro-poor in its effects. There has been increasing recognition of the importance of justice and security as components of welfare, and this is reflected in PEAP revisions. Support to the SWAp for justice, law and order (JLO), including the incorporation of part of its expenditures in the PAF, has also reflected this concern.

Principal Causality Chains

B8.12 With regard to the causality chains posited in ¶B8.1:

- As noted, empowerment is the most difficult dimension of poverty on which to assess impact; however, PGBS has certainly helped to make more services more available to the poor, and it played a strong role in realising the strategy of decentralisation.
- Effects of PGBS on a growth-enhancing environment, though weaker than its effects on service delivery, have been positive. However, the state of knowledge about poverty trends and their causes does not permit a more precise conclusion concerning the impact of PGBS on income poverty.
- The strongest effects of PGBS thus far have been through service delivery effects on non-income poverty reduction. Thus far they have occurred more through the effects of service expansion than through any transformation of service delivery relationships.

Counterfactual

B8.13 With less aid overall, the pace of service delivery expansion and reduction in non-income poverty would have been less. As earlier chapters have suggested, PGBS has been a relatively efficient modality for delivering aid for these purposes. Efforts to strengthen economic policy and to support various aspects of empowerment can be, and have been, delivered through sector and project support. However, PGBS has expanded the scope of relevant GOU–donor dialogue about a range of cross-sectoral issues in a way that strongly complements more focused forms of aid, and for which they do not offer a direct substitute.

B9. The Sustainability of Partnership GBS

Is the PGBS process itself sustainable?

Introduction

B9.1 In addressing sustainability, this chapter relates to the specified feedback loops of the enhanced evaluation framework (EEF) – see Annex 1A, Figure 1A.1. The EEF draws attention to feedback between all the levels of its logical framework, and the monitoring and evaluation of PGBS needs to be seen in the wider context of M&E systems for the poverty reduction strategy and for public policy as a whole.

B9.2 Sustainability of the PGBS process is important in the context of the long-term objectives that are set for PGBS. The time scale for plausible institutional and policy effects on poverty reduction is a long one, as is the horizon for achievement of the MDGs. PGBS needs to be durable, but also adaptable, if it is to perform effectively over the long periods that its intentions require.

Relevant Facts

B9.3 The mechanisms for managing PGBS and for monitoring it, in the context of overall monitoring of the national poverty reduction strategy, are continuing to evolve in response to experience, and are strongly rooted in national systems for planning and budgeting. Further convergence is likely as the PRSC performance matrix is more directly drawn from the PEAP.

B9.4 The link between PGBS and the evolution of the GOU's planning and budget system has been highlighted throughout this report, and has had direct consequences for the systems of monitoring and evaluation on which PGBS draws. Booth and Nsabagasani (2005) describe the relationship as follows:

> The comparatively strong domestic political thrust behind the first PEAP and the way budget and public-expenditure reforms were made to link up with poverty-reduction objectives through the MTEF created a favourable environment. In this context Uganda scored a series of firsts with innovative data collection methods and arrangements that, in a conducive political environment, enabled their results to influence policy. These innovations did not alter the political basis of the state, and the potential for the budget/MTEF process to generate incentives to data use was only realised in limited ways. Haphazard but real shifts towards results- and evidence-based policy making have nonetheless taken place over a period of years. Improvements in aid alignment have been made possible as a consequence.
>
> The second PEAP revision has produced some important improvements in both policy thinking and institutional embeddedness, but country ownership at the political level is less clear than it was. [35]

B9.5 The sequence (with the PEAP preceding PRSPs) meant that Uganda's PRSP reporting has been adapted from pre-existing documents – the annual Background to the Budget and biennial Poverty Status Reports. The Poverty Status Reports are prepared by a specialist unit established in MFPED in 1998 as the Poverty Monitoring Unit, and later given a broader

[35] This chapter draws extensively on Booth and Nsabagasani (2005), who provide an excellent analysis of the issues it addresses.

mandate reflected in the current title of Poverty Monitoring and Analysis Unit (PMAU). Over time Poverty Status Reports have paid more attention not only to poverty outcomes but also to the implementation of the policy actions included in the PEAP. This trend has been taken a stage further in PEAP3, with the inclusion of a fuller policy matrix. The main survey organisation is the Uganda Bureau of Statistics (UBOS), which has a good reputation, while econometric analysis of surveys is largely contracted to the Economic Policy Research Centre (EPRC). There has been considerable TA to data and analysis functions (e.g. from DFID to the PMAU, while EPRC has been funded through World Bank credits and has worked closely with World Bank analysts.)

B9.6 The mutually reinforcing combination of survey and analytical capacity with a demand for evidence on which to base policy has led to significant innovation:

> This context helps to account for the long run of 'firsts' that has been chalked up by Uganda in the collection and use of poverty data. This includes most notably the reasonably consistent series of household expenditure surveys undertaken by the Uganda Bureau of Statistics (UBOS) and the Uganda Participatory Poverty Assessment Process (UPPAP), but also Public Expenditure Tracking Surveys (PETS), the involvement of NGOs in PAF monitoring in districts, etc. The political alliance that first projected the PEAP and then linked it to the budget not only instituted these activities. For a period, it provided them with both channels of influence and some protection against pressures to tone down critical findings or policy implications. *(ibid.)*

The National Integrity Survey (Inspectorate of Government 2003) and National Service Delivery Survey (UBOS 2004) could be added to this list of relevant instruments.

B9.7 Recently there have been two significant innovations which will influence future M&E. In line with the shift from MFPED to the Office of the Prime Minister (OPM) of responsibility for coordinating the PRSC process, OPM has taken responsibility for overall coordination of monitoring, with a secretariat to coordinate the National Integrated Monitoring and Evaluation System (NIMES). Secondly, the National Planning Authority (NPA), envisaged in the 1995 Constitution, has now been established. Although formally under the Minister of Finance, the new Authority has its own Board, Executive Director and secretariat, and reports directly to Parliament. It has an extremely broad mandate to produce comprehensive and integrated development plans for the country, including both long-term and medium-term plans, and guidance and support to the national and local bodies responsible for the decentralised planning process.

Assessment against Evaluation Criteria

Shared Learning between Government and Donors

The extent to which PGBS allows a shared learning process between Government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities among different forms of aid).		
Level: **	Trend: +	Confidence: ***

B9.8 The systems and processes that are most specific to PGBS are those that relate directly to the PRSC, notably the procedures for setting and reviewing actions and targets to be included in its policy matrix. However, these take place in the context of wider systems for general and sector policy review that are unusually well articulated with GOU's planning and budgeting system. There is striking scope for direct involvement by IPs in the annual cycle of expenditure review and budget formulation, as well as a great deal of dialogue (much of it quite informal) around PEAP preparation and review. GOU has demonstrated considerable capacity for evidence-based review and adjustment of policies and resource allocations, and has made effective use of support from, and dialogue with, IPs in doing so. The evolution of the analysis and policies incorporated in successive PEAPs is a reflection of this. However, IPs' ability to learn and build on experience is limited by their short institutional memory, relative to that of government.

B9.9 Although the context for shared GOU/IP learning is an unusually strong one, we have assessed the influence of PGBS as moderate rather than strong because: it (appropriately) adapted to the existing and emerging systems, but did not create them; the ability to learn and adjust through the most characteristically PGBS mechanism – the annual PRSC cycle – is somewhat constrained by the frenetic intensity of an unwieldy annual exercise;[36] and, notwithstanding the Partnership Principles, there has been little explicit attention by either the GOU or IPs to the best ways of ensuring complementarities among different forms of aid (see our recommendations in Part D).

Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).		
Level: **	Trend: +	Confidence: **

B9.10 Feedback processes (budget and expenditure reporting, poverty monitoring, regular and ad hoc institutional reviews, etc.) do in principle cover all three streams, but policy and institutional review, not surprisingly, is less developed than financial monitoring. A more serious weakness, however, is the failure to strike an appropriate balance in monitoring all stages in chains of causality. Once again, Booth and Nsabagasani provide an acute analysis:

> As in other countries, the monitoring of poverty-impact trends and easily-measured poverty-relevant outcomes has been more systematic than the attention to intermediate actions, processes and outputs. In part, this reflects the weakness of the routine data that might be used for this purpose; but it was also because PEAP indicators and targets were only clearly specified at the outcome level. This left a large gap between donor-instigated and country-based review mechanisms which the [Poverty Monitoring System (PMS)] and its annual reporting were not quite able to bridge.
>
> However, there is another thing that needs to be done to get a better relationship between supply and demand. That is to shift the focus of the PMS, and the activities of both PMAU and the NIMES Secretariat, towards a more systematic monitoring of the intermediate levels of the results chain between inputs and final policy objectives. This has been tried, notably in the approach taken to writing Poverty Status Reports and PRSP Annual Progress Reports (APRs), in recognition that outcomes and impacts tend to change too slowly to be really useful for year-on-year learning and strengthening results' accountability. But it has been hard, because only the outcome level of the PEAP monitoring matrix has had clearly specified indicators and targets. This is now changing, as the 2004 PEAP reflects gradually maturing strategies in the sectors, and – a crucial innovation – has a Policy Matrix, setting out agreed policy actions, as well as a Results and Monitoring Matrix.
>
> It is, rather regrettably, a feature of the set-up of PRSP monitoring in many countries that it focuses heavily on the outcome and impact levels of change, where changes are slow-moving and determined in complex ways. There are deep reasons for this tendency that we cannot go into here, but it reflects among other things a profound misunderstanding of what an outcome-oriented approach to policy is.

[36] But see Miovic 2004 for the case for maintaining the PRSC as an annual instrument. The learning potential from it should increase now that (since 2005) the PRSC task manager is based in the country.

The promotion of outcome orientation in PRS processes has tended to lead to the use of what could be considered truncated Logical Frameworks, in which only the outcome/impact level is represented. What it ought to mean, on the other hand, is moving as fast as reasonably possible towards policy designs that, in effect, fill in all the cells of a complete logframe.

Without an ability to track progress in increasing or altering the composition of sector outputs and intermediate outcomes, a PMS has little chance of detecting whether or not the final goals of the strategy are likely to be achieved. Yet the tracking of intermediate indicators relies to a very important degree on routine data systems – administrative and financial reporting, and Management Information Systems.

B9.11 In short, evidence-based policy making depends on gathering the right kinds of evidence, and outcome evidence by itself is not enough. This has implications for the way policy matrices are viewed. It should not be automatically assumed that an extensive policy matrix is inappropriate per se, since government is attempting many things in many different ways and needs commensurate management information. However, an extensive set of indicators may become dysfunctional for various reasons: if too many of them are made into conditions for funds release; if it reinforces a centralising tendency with donors attempting to micromanage government actions (and central government agencies micromanaging other government agencies);[37] or if the costs and benefits of data collection and use are out of kilter. The bias towards focusing too narrowly on outcomes has a counterpart in the way the dialogue has been conducted – the tendency, on which we have already commented, for "headline issues" to distract attention from more detailed analytical work that could strengthen the practical links between evidence and policy.

B9.12 Finally, some comments on the budget process which is central to results-based policy. First, as already noted, the rigidities of the PAF have a downside in policy review, since guaranteed finance for PAF budget lines and the corresponding inability of non-PAF budget lines to attract funding, however good their case, undermines the contestability of the budget and the ability of the system to adjust to results observed. Second, the integrity of the budget process in which recurrent and investment budgets are considered together, is crucial. The quality of this process would be severely damaged if responsibility for the allocation of investment budgets were allowed to migrate from MFPED to the new National Planning Authority.

Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.		
Level: **	Trend: +	Confidence: ***

B9.13 Different stakeholders require different types of feedback for different purposes. The sustainability of PGBS depends not merely on whether it is effective but on whether, if it is effective, this continues to be recognised by the relevant decision makers and, if it is not (adequately) effective, there are working feedback mechanisms that promote learning and adaptation. The latter point (monitoring and adjustment) has been addressed under the previous evaluation criterion. Here, therefore, we consider the longer-term requirements for the sustainability of PGBS.

[37] From a practical point of view, therefore, the nesting of overall and sector matrices is entirely appropriate; but it should not become a cascade of conditionality.

B9.14 Systems for annual feedback that allows the release of successive tranches of PGBS are working. There is room for more concern about the long-term sustainability of the PGBS process. This stems from several observations made already: the erosion of the three-way alliance (President–MFPED–IPs) that gave the poverty reduction enterprise its initial strength; the related growth of political concerns among several donors that make it harder for them to justify aid to GOU (and budget support in particular) to their home constituencies; and, as highlighted in Chapter B8, the good fortune involved in the timing of PGBS's introduction when poverty indicators were anyway heading in the right direction. To this may be added the signs of increased GOU concern about aid dependency (a factor which almost certainly has some bearing on GOU desires to constrain the deficit, and hence the amount of aid absorbed). Altogether, the feedback systems that have been adequate so far are likely to face tougher challenges in future.

Principal Causality Chains

B9.15 Feedback loops exist and are effective in many ways. IPs use and support GOU feedback systems to a substantial and increasing degree. The principal weaknesses in feedback systems are: (a) a tendency to focus too narrowly on the outcome level, with insufficient specification and monitoring of intermediate links in results chains; (b) a tendency to focus more on feedback related to predominantly annual disbursement decisions than on the types of feedback required for the long-term sustainability of PGBS. The system has shown an ability to adapt and evolve which will continue to be required.

Counterfactual

B9.16 Our judgement is that PGBS has had a significant positive effect on the feedback and analysis systems surrounding Uganda's poverty reduction strategy. Importantly, it has helped to stimulate the demand for relevant monitoring, review and analysis, complementing TA support to the development of statistical and analytical capacity. Its effects have complemented sectoral and project approaches. It is unlikely that the same degree of holistic analysis of issues linking public policy to poverty reduction would have occurred if aid had been delivered only through sector or project approaches.

PART C: CROSS-CUTTING ISSUES

C1. Cross-Cutting Policy Issues

Introduction

C1.1 Part C builds on Part B by addressing a series of cross-cutting issues (CCIs). The study Terms of Reference required specific reference to four cross-cutting dimensions of public policy: gender, environment, HIV/AIDS, and democracy and human rights. The first three of these are discussed in the present chapter; democracy and human rights are incorporated in the later chapter on political governance. Four subsequent chapters deal with additional CCIs that emerged during the study as critical issues intrinsic to PGBS itself: the balance between public and private sectors (Chapter C2); government capacity and capacity building (Chapter C3); the quality of partnership (Chapter C4) and political governance issues, including corruption (Chapter C5).

C1.2 Our aim in the present chapter is not to analyse the policy-related CCIs in detail, but, more narrowly, to assess how they have featured in relation to PGBS.

Policy-related CCIs

Gender

C1.3 The gender dimensions of poverty, rooted in unequal social relations, and in differential access to land, other assets and services, are clear from the Participatory Poverty Assessments and much other work on poverty in Uganda. The GOU has an explicit gender strategy – the National Gender Policy, formulated in 1997 (at the same time as the first PEAP), which is oriented towards the mainstreaming of a gender perspective in all aspects of planning, resource allocation and implementation. Many donors are particularly concerned with the reinforcement of gender priorities; and there is an active Donor Coordination Group on Gender.

C1.4 Canagarajah (2005) provides a succinct overview of the interplay between gender issues and the formulation and implementation of public policy in Uganda. He concludes:

> Uganda has been exceptionally pro-active in addressing many important gender issues, through affirmative action in the political sphere, through the abolition of user fees in health care and the introduction of UPE, through impressive work to reduce HIV prevalence rates, and through its determination to focus on gender issues in the economic policy arena and in legal reform. In the budget as well as in the PEAP revision and the PRSC process, the Ugandan authorities have used the existing administrative framework rather than creating additional structures to integrate gender issues into development.

C1.5 Although gender issues are addressed and mainstreamed more systematically in Uganda than in many other countries, including in the PGBS dialogue, there is no room for complacency. The stocktaking prepared as part of the preparation of PEAP3 concluded: *there is a very poor coverage of gender issues within the PEAP and at sectoral plan level, even using the most basic assessment* (MGLSD and MFPED 2003).

C1.6 From the perspective of this evaluation it is worth noting (a) that women have been particular beneficiaries from a number of the initiatives most clearly supported by PGBS (e.g. UPE, expansion of free health care); (b) that the PEAP dialogue has embraced gender issues – notably in the establishment of MFPED-led task forces on gender inputs for the PEAP and on Maternal and Child Health, and has fostered extensive gender research and analysis, as well as the promotion of a gender perspective in budgeting. PGBS has thus helped to reinforce an holistic approach to gender issues that has practical importance beyond the inclusion of a significant number of gender-related conditions in the PRSC policy matrices.

HIV/AIDS[38]

C1.7 Uganda was one of the first countries, with a strong political lead, to launch a very public, broad-based anti-HIV/AIDS strategy, as a result of which sero-prevalence[39] fell sharply (from 18% in the early 1990s to 6% in 2002). This decrease has been primarily attributed to the government's early and consolidated response to the epidemic and commitment in promoting prevention around the ABC (Abstain, Be faithful, use Condoms) strategy. However, during the past five years, the prevalence rate has stagnated between 6% and 7%, and the 2005 sero-survey reported the national prevalence rate at 7.1%. The effects – demographic, social, economic and in loss of human capital – continue to be extremely serious. For example, it is estimated that the agriculture sector in Uganda will lose approximately 14% of its labour force to AIDS between 1985 and 2020.

C1.8 The HIV/AIDS strategy was only partly mainstreamed in PEAP1 and PEAP2. In 2003 the National Strategic Framework (NSF) was revised. The revised NSF aims to mitigate all recognised factors of susceptibility to HIV infection, as well as minimising the burden of the disease at individual, community, and national level. As such, government policy shifted towards a more holistic approach to the epidemic: "ABC Plus". This new approach integrates a number of strategies beyond advocacy for behavioural change. It includes a greater emphasis on treatment and care. To date, with a policy of universal access to anti-retroviral drugs (ARV), 67,369 patients out of 189,000 estimated to be in need of ARV treatment countrywide have been provided with these drugs. The provision of ARV drugs absorbs a substantial proportion of AIDS funding, and prevention and treatment aspects of the strategy are not well integrated.

C1.9 NSF concerns have not been fully translated into funding priorities. While the PEAP points to HIV/AIDS as a cross-cutting priority to be mainstreamed across all sectors of the economy, it falls short of outlining how this process is to be put in place, budgeted for, and monitored. By implication, AIDS is peripherally addressed in the Medium Term Expenditure Framework (MTEF), and rarely features in other sectors' Budget Framework Papers (BFPs). HIV/AIDS budgetary allocations as a percentage of GOU total expenditure during FY2003/04 and FY2004/05 were 2.59% and 3.19% respectively. Low on-budget funding is partly explained by reliance on special funds,[40] particularly for the costs of importing drugs.

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[38] This section draws on the draft Poverty Status Report for 2006 (Poverty Monitoring and Analysis Unit, forthcoming), which is the proximate source of the data cited.
[39] Note that trends in sero-prevalence are somewhat ambiguous, since they reflect the combined effects of mortality and new infections.
[40] The Global Fund for AIDS, Tuberculosis and Malaria (GFATM) and President Bush's Emergency Plan For AIDS Relief (PEPFAR). In 2005/06 the global funds were added to the health sector ceiling, increasing the HIV/AIDS budgetary allocation as a percentage of GOU total expenditure.

C1.10 To the extent that HIV/AIDS is treated as a health issue, it is incorporated in the one-line "nested" condition for satisfactory review of the Health Sector Strategic Plan (HSSP) but HIV/AIDS has not featured explicitly in PRSC conditions. Otherwise, the main interaction between the PGBS approach and HIV/AIDS issues is the controversy over whether resources potentially available from such funds should be exempt from government's macro and sector ceilings. GOU has taken a consistent position that they should not, and this is reflected in the Partnership Principles (reproduced in Annex 3D).

> Section Five: Global Funds
>
> 23. Any financial assistance received from Global Funds will be utilised as sector budget support or project aid and integrated into the budget in line with the principles set out in sections one, two, four, and six.

We return to the interaction between different funding modalities in Chapter C4 below.

Environment

C1.11 Many environmental issues are critical for poverty reduction and sustainability. An Environment Action Plan pre-dates the PEAP. The institutional structure of the National Environmental Management Agency (NEMA) and local environment bodies are in place but lack capacity. An Environmental and Natural Resources Sector Working Group was established in 2001 to prepare and harmonise sector plans and budgets. The PRSC has been used more actively to support environmental issues than for either HIV/AIDS or gender. Successive PRSCs have included actions that focus on strengthening institutional structures (chiefly NEMA), designing conservation and protection strategies, and training (especially at the local government level). World Bank monitoring of how the environment features in poverty reduction strategies and PRSCs cites Uganda for "good practice" in:

> ... inclusion of environmental specialist in PRSC team; progressive tendency for team to accept environment as part of operation; donor support of [environment and natural resources] and persistence in pushing PRSC team; existing investment environmental management project provides parallel support to PRSC initiatives; inclusion of key environment indicators in several sectors; matrix increasing [environment and natural resources] with sequential operations. (Bojö et al 2004, Table 10)

C1.12 The PRSC stocktaking offers the following assessment:

> Environmental Degradation. The Participatory Poverty Assessment shows that the environmental degradation trends have continued and perhaps worsened during the PRSC cycle, and that there is no evidence as yet that either the level or the risks have been reduced (the PRSC goal: see PRSC-III Program Document, paragraph 137, page 41). Losses due to environmental degradation have been estimated to lie within the range of 4 to 12 percent of GDP. Significant causes continue to be loss of forest cover, water pollution due to industrial and domestic waste, over-fishing, destruction of native fish species by introduction of foreign species, over-grazing, and encroachment on wildlife areas and wetlands. PRSC focused on strengthening institutional structures (chiefly NEMA), designing conservation and protection strategies, and training (especially at the local government level).
>
> Progress has been made in many aspects of this component as it was designed, although progress in achieving the stated PRSC goal is some way off. A number of environmental policies have been put in place: for forests (2001); wetlands (2001); and soil (2003). Responsibility for environmental management has been formally devolved to district and lower governments. An Environmental and Natural Resources Sector Working Group was established in 2001 to prepare and harmonize sector plans and budgets. Environmental training and manuals have been given to relevant government agencies, NGOs, and district and sub-district officials. An Environmental Governance Review has been launched, and the first steps taken to establish a National Forestry Authority.

The viability of this approach to reducing environmental degradation depends on the adequacy of capacity and resources at the levels of primary responsibility, namely district and sub-district governments. It is clear that at present, neither the resources nor the capacity are adequate, and the sustainability of the decentralized approach remains uncertain. The policies themselves have also not been adequately funded, so implementation will be slow and uneven until they are. At the moment the Government funds only 10% of the recurrent budget of NEMA, with the rest supplied by donors.

Environmental management depends to a large degree on voluntary adoption of effective practices and avoidance of harmful ones, and this requires a strongly participative approach to decision making and a clear awareness of rights. Progress on this front is slow and there have been complaints of people being excluded from the decision-making process. While issues of environment are not central to the PRSC process, they do tend to be cross-sectoral and could be supported through PRSCs. However, this would further strain the already large scope of the PRSCs. Perhaps the solution lies in well-focused "hands on" technical assistance along the lines that seems to have been successful in improving financial management and procurement procedures. (Miovic 2004)

Summary

C1.13 The structure of dialogue has been reinforced by PGBS, which provides opportunities to mainstream CCIs in sector and budget discussions. The PRSC has been used more to support environmental policy than for explicit gender or HIV/AIDS initiatives. For HIV/AIDS and environment there are strong elements of project support. For environment in particular, the PRSC has been used as a complementary mechanism to promote relevant reforms. The interplay between aid modalities is further discussed in Chapter C4. However, it is evident that the degree of political backing is the major factor behind whether effective progress is made in tackling policy CCIs, which the environment sector, in particular, has not enjoyed.

C2. Public and Private Sector Issues

Introduction

C2.1 A serious criticism levelled against PGBS in Uganda (and elsewhere) is that its focus on the expansion of public services is to the detriment of private sector development and growth. There are several related issues here: (a) has PGBS led to a bias towards public sector action and away from an appropriate focus on private sector development? (b) has this had directly adverse consequences for the private sector and growth? and (c) to the extent that there has been such a bias, is this a necessary consequence of the PGBS approach or something that could be corrected?

C2.2 Earlier chapters have already discussed many aspects of this. We have shown that, in practice, PGBS funds have been predominantly used to support the expansion of basic social services (Chapter B3). There are signs that some macroeconomic effects have been to the relative disadvantage of the private sector (notably the higher domestic interest rates resulting from sterilisation) although this is in the context of likely higher growth and domestic demand as a result of the aid inflows (Chapter B6); moreover, these effects are essentially due to the influx of aid, not specific to the PGBS form that it took. A further observation is that there have been opportunities for non-government service providers. Non-profit providers have been especially important in the health sector (although there have been recent protests that GOU decisions have discriminated against them).[41]

C2.3 We first review the (changing) balance of emphasis in Uganda's poverty strategy and the associated PGBS dialogue. We then briefly review some of the practical constraints faced by the private sector in Uganda, and the constraints the poor face in participating in economic growth in Uganda, and their implications for public policy. Finally, we note some ways in which the early bias towards public expenditures on social services may be difficult in practice to redress.

Initial Bias towards Public Services, Increasing Attention to Growth

C2.4 There is general recognition of the need to give more weight to economic growth issues and to the expansion of private sector opportunities. This is reflected, inter alia, in the changing balance of the PEAP and of PRSC policy matrices, as illustrated in Box C2.1, with a substantial increase in the number and range of PRSC actions linked to the relevant PEAP pillars. A broad cross-sectoral dialogue attended the development of the Plan for the Modernisation of Agriculture, which itself incorporates innovative, private-sector-based approaches to the provision of agricultural services. There thus appears no inherent incompatibility between the PGBS approach and attention to private sector and growth issues.[42]

[41] Possible reasons for recent pressure are apparent in the discussion of interaction between aid modalities in Chapter C4 below.
[42] There is a separate issue as to when and in what circumstances aid may promote private sector development more effectively through specific projects, or through assistance that is not directly to government at all, than through PGBS. That is beyond the scope of this evaluation, but see the discussion of interaction between modalities in Chapter C4 below.

Box C2.1: Increasing Focus on Growth and Production in PRSC Dialogue

PRSC1 (2001)	PRSC 3 Matrix (2003)	PEAP3 Matrix – PRSC 5 (2005)
PEAP PILLAR 1 – Framework for Economic Growth and Structural Transformation. PRSC Objective: Efficient and Equitable Use of Public Resources: – Allocations and actual expenditures, intergovernmental transfers, results orientation. *Number of actions: 6.*	**PEAP PILLAR 1 – Framework for Economic Growth and Structural Transformation.** PRSC Objective: Efficient and Effective Use of Resources: – Allocations and actual expenditures, intergovernmental transfers, results orientation and monitoring and evaluation, financial sector. *Number of actions: 12.*	**PEAP Pillar 1 – Economic Management:** – Macroeconomic stability consistent with rapid private-sector-led growth. *Number of actions: 24.*
PEAP PILLAR 3 – Directly Increasing the Ability of the Poor to Raise their Incomes. No PRSC Objective: – Plan for Modernisation of Agriculture. *Number of actions: 0.*	**PEAP PILLAR 3 – Directly Increasing the Ability of the Poor to Raise their Incomes.** PRSC Objective: Promotion of Enabling Environment for Rural Development: – Research and technology, agricultural advisory services, rural finance, agro processing and marketing, natural resource management; district roads. *Number of actions: 12.*	**PEAP Pillar 2 – Production, Competitiveness and Incomes:** – Increased, more efficient private sector production; agricultural production; sustainable forestry production; non-agriculture goods and services. – Strengthened infrastructure Strengthened env. and NR management regime. – Strengthened financial sector in support of production. *Number of actions: 62.*
Total number of actions: 46.	**Total number of actions: 70.**	**Total number of actions: 201.**

Source: See Annex Table 3C.1 for actions under all PEAP pillars.

Private Sector Constraints

C2.5 The 2004 PEAP highlights that the greatest constraint to doing business in Uganda, as cited by the business community, is the cost of borrowing, with access to financing also a problem (see Annex 2, Box 2A.1). Despite the buoyancy of private sector investment (see Chapter B6, ¶B6.13), this assertion is consistent with high domestic interest rates deterring private sector investment (although much financing is used by the private sector as working capital). Lending by microfinance institutions has been expanding, but such lending is more suited to urban areas, and biased towards non-farming activities. Access to credit for poor rural farmers is problematic, because of short lending cycles.

C2.6 Tax rates and administration are also major constraints to the small, formal private sector which shoulders almost the entire tax burden. Macroeconomic stability also is given as a major constraint by businesses, despite Uganda's track record. Uganda's lack of power generation has resulted in increasingly frequent power shortages, and this is emerging as a major constraint to private sector growth. However, over the past decade there have been significant improvements in other types of infrastructure, especially roads and communications, which have improved access to markets and facilitated growth.

C2.7 The public sector has a direct and/or indirect role in many of the constraints highlighted by the private sector – many of which demand better policy and administration, not additional public expenditure. Attempts are being made to address bottlenecks in areas such as the registrar of companies, the immigration department and customs. In the early 1990s there were 37 bureaucratic hurdles for an investor to start a business; by 2003 this was down to 17 (IFC and World Bank 2003). There have been significant improvements in roads and communications. Land reform has yet to yield major positive results. Corruption is also a major issue for the private sector, and firms regularly have to pay bribes when dealing with public officials.[43]

C2.8 Recent increases in inequality point to many of the poor being excluded from economic growth. Constraints faced by the poor engaged in smallholder agriculture include information, organisation of marketing, infrastructure, access to assets, depletion of assets and access to finance. Uptake of new farming technologies by smallholder farmers is slow and only 30% of farming households have access to market information. However, comparative survey evidence over time (Okidi et al 2004) suggests that, as a consequence of public investment, the poor are closer to rural infrastructure such as roads, schools, and health facilities in 2002/03 than they were a decade before. This should provide them with a better opportunity to make use of their productive assets. However, there is concern that too much focus has been placed by the public sector on the supply side, improving the productivity of the poor, while not enough focus has been placed on stimulating demand for goods and services that could be provided by the poor.

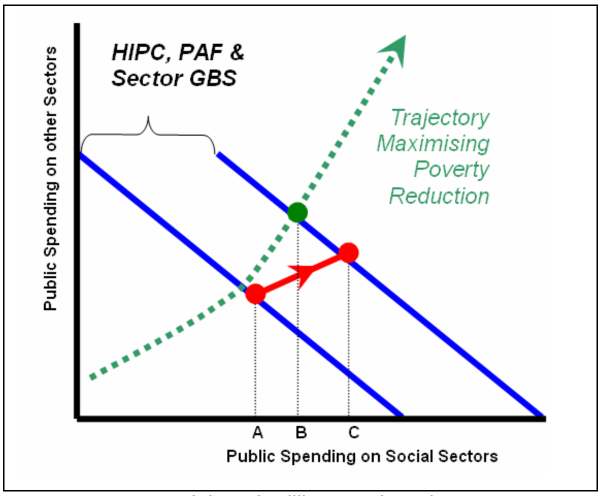
PGBS Influence

C2.9 Major factors behind the impressive record of pro-poor growth in the early 1990s were macroeconomic stability, combined with a strong liberalisation agenda. Assessments of Uganda's policies with respect to the private sector are fairly positive (see Fox (2004) on the PEAP treatment of private sector issues). There is a strong record of private sector investment and growth (Chapter B6, ¶B6.13). However, as shown in previous chapters, the emphasis of public sector activity and public expenditures has been on the expansion of basic social services, such as health, education, water and sanitation, and consequently not on those which might directly enhance growth, and address the constraints faced by the private sector. We have shown that there are signs that some macroeconomic effects have been to the relative disadvantage of the private sector (notably the higher domestic interest rates resulting from sterilisation) although this is in the context of likely higher growth and domestic demand as a result of the aid inflows; moreover, these effects are essentially due to the influx of aid, not specific to the PGBS form that it took.

C2.10 Williamson and Canagarajah (2003) argue that mechanisms such as the Poverty Action Fund and SWAps in the social sectors may have shifted the mix of public spending too far in the direction of social services and away from the optimal allocations for reducing poverty. Sector budget support was mostly notionally earmarked to the social sectors early on, and therefore contributed to this skewing of the budget towards the social sectors. This has directly contributed to the subsequent difficulty the GOU has had in expanding public expenditures which are likely to promote growth. At the same time, project support has also been biased towards the social sectors, so that this bias is not an exclusive domain of PGBS.

[43] See Chapter C5 below.

Figure C2.1: Skewing Public Spending towards the Social Sectors



Source: Canagarajah and Williamson (2005).

C2.11 In the second half of the evaluation period, private sector issues have gained greater prominence in public sector policy (as reflected in Box C2.1 above). The GOU has decided to limit growth in public expenditure, partly due to concerns that this public expenditure was crowding out the private sector. Given increasing rigidities in the budget, this has, ironically, limited the ability of the GOU to expand expenditures which might facilitate private sector growth. For example, since its introduction in 2000, the GOU has been unable to fund the roll-out of the National Agricultural Advisory Services fully, or expand rural electrification programmes significantly. Meanwhile some argue that the cost to the public sector of interest payments related to the GOU sterilisation policy (again instigated due to concerns over exports) would be better spent by the public sector on directly addressing constraints to private sector investment – such as power and transport infrastructure. These are issues for the GOU (and its aid partners) to address more explicitly in future strategies for public expenditure and aid.

C3. Government Capacity and Capacity Building

Government Capacity and Capacity Building

C3.1 Uganda has been characterised as having strong political capacity but weak administrative capacity. Systemic capacity building ("strengthening government processes and systems" – Miovic 2004) is one of the basic objectives of PGBS, but, as we have noted, specific TA/CB activities are the least well-specified of the PGBS inputs (see Chapter B1, ¶B1.12). We have noted a number of important ways in which PGBS – often through the empowering effect of a flow of discretionary funds – has served to support the strengthening of government capacity, particularly in aspects of PFM. At the same time, even in areas where progress has been made, TA/CB inputs have been rather fragmented and uncoordinated.

C3.2 However, before assessing progress in this area, it is important to note the difficulty in assessing issues of capacity objectively:

> Because there is a lack of a systematic assessment framework and accompanying information sources to evaluate progress in strengthening government processes and systems, it is no surprise that views on progress made in these crucial areas are mixed, based mainly on partial experience, impressions, and anecdotes. All those consulted agreed that their judgments were insufficiently supported by the evidence that would emerge from a proper time-tracked monitoring mechanism. (Miovic 2004)

C3.3 Two main areas seem especially relevant: PFM and decentralisation. PFM is the natural focus of PGBS capacity development because (a) PGBS generates a more direct IP interest in fiduciary standards and the accountability of government; and (b) the quality of planning and budgeting systems is vital to efficient and effective use of PGBS resources. But decentralisation has emerged as an equally important area. Local governments are the front line of the primary service delivery that PGBS has helped to expand, and decentralisation thus moves the issues of effectiveness in service delivery and of fiduciary standards and accountability to LG level.

PFM Capacity Development

C3.4 Capacity development for PFM has been reviewed in Chapter B4 (¶B4.16–B4.18). It is evident that PGBS funds have helped ensure government institutions pay greater attention to their budgeting capacity. However, over the majority of the evaluation period IP support to PFM has been weakly coordinated. There has recently been increasing collaboration by donors on common standards and approaches (see review in Annex 4B), and the beginnings of a more coherent approach in which the TA/CB inputs of different donors are to be linked to an overall PFM reform programme. Progress is helped by IPs' obvious interest in sharing PFM analysis, and by the development of transparent standards of performance and common concepts of good practice (see, most recently, the PEFA indicators used in Annex 4B and the "strengthened approach" to capacity development for PFM included in OECD DAC 2005a). It is now intended to undertake a review of PFM performance against the PEFA indicators every year for both central and local government.

Decentralisation and Capacity Development

C3.5 We have noted that, partly through happy coincidence, PGBS provided a major boost to the government's decentralisation strategy. Technical assistance and capacity building linked to decentralisation (largely under LGDP, but also other bilaterals) and the accounting function in local governments (provided under EFMP2), which has been linked to the PRSC dialogue, have helped improve local government institutional capacity. However, as noted in Chapter B7 (¶B7.19–B7.20), these areas have been given less attention than their significance in maximising the benefits from PGBS might indicate.

C3.6 At the outset, local governments were weak institutions, with little functional administrative capacity. Capacity has improved substantially. Improvements in institutional capacity at local levels have also largely followed the increases in funding for local governments. The increasing size of local government budgets has helped them attract better staff. Other initiatives such as the performance assessment process under the Local Government Development Programme (LGDP – see Annex 6) which is linked to the Local Development Grant (supported by notionally earmarked PGBS) has helped provide strong incentives for local governments to upgrade their functional and administrative capacity. More recently, standardised training modules have been rolled out across local governments. Such initiatives have been linked through the PGBS and PRSC dialogue (albeit with inadequate priority); however, the improvements influence service delivery only indirectly, and do not address institutional capacity in specific services, which necessarily needs action at the sector level.

C3.7 Therefore while there have been significant improvements in some areas of higher local government institutional capacity, weak capacity of service providers themselves is a continuing concern, and there is little evidence of any systematic improvements over the evaluation period. While increased flows of funds have served to capacitate schools, health centres and other institutions in terms of increasing the inputs available to deliver services, local government management of service providers is weak.

C3.8 There has been some progress, however. Central line ministries have gradually begun to adapt to the decentralised environment, and the shifting of funding towards local government accelerated this shift. Ministries have begun to provide and then improve the quality of support and supervision to local governments and this was facilitated with funds provided via the PAF. However, the activity of central ministries in this regard varies substantially. Some sector ministries have made efforts to strengthen the management function in local governments, especially in health and water where regional teams support local governments, but this has not occurred in all sectors. The district education office and inspectorate, for example, receive little financial or institutional support from the central ministry, and are solely reliant on districts' local revenues, which vary significantly across local governments (and have lately been undermined by the abolition of Graduated Tax).

C3.9 At a sector level, dialogue and conditionality have not been effective at facilitating improved institutional capacity for delivery in most sectors, while the approaches to CB and use of TA by different sectors vary a lot and make generalisation difficult. Sector TA/CB is likely to be most relevant and effective when it is aimed at strengthening the management and support local governments provide to service providers. While some sectors, such as health and water mentioned above, have taken this approach (see Box C3.1), others such as education and agriculture have set up structures in parallel to local government systems, and focused on building capacity there. In general, central agencies have been slow to recognise and engage with the decentralisation process, and to give due attention to the initiatives, systems and processes that are likely to improve the management and incentives for delivery. Nevertheless, there has been a shift by donors towards TA and CB which focuses on government systems in most sectors, and, although still fragmented, this support is more aligned with government policies than before.

Box C3.1: Different Approaches to Building Capacity in Service Provision

Technical assistance and capacity building have been most effective when they have been supporting the implementation of government systems and targeted at building strong local government institutions:

- At a sector level, regional support teams in health regularly monitor and provide support to district health offices. Regional offices of the directorate of water development provide technical support to the district water offices. These ministries have been most active in supporting local governments in situ.
- At a cross-sector level, with support from the Local Government Development Programme, the Ministry of Local Government has established standardised training modules, which local governments can draw from depending on their capacity needs. In addition USAID has helped provide capacity building to (some) local governments, assisting them in implementing the fiscal decentralisation strategy.

But not all of central government has tried to work through supporting local governments:

- In education more attention has been placed on strengthening Centre Coordinating Tutors and Primary Teachers Colleges, which fall outside the purview of local governments. Comparatively little attention has been provided to support district education offices and schools inspection as a means of supporting teachers.
- In formulating the National Agricultural Advisory Services, the Ministry of Agriculture chose to bypass existing production offices, and establish parallel structures which have been given intensive support.

However, in either case it is difficult to attribute much in terms of the gains in service delivery performance to improvements in TA and CB.

C3.10 The annual LG assessment and benchmarking exercise (derived from LGDP; see also the first LG PEFA analysis reproduced in Annex 4B) again offers opportunity for close monitoring and links the supply of TA/CB support to systematic review and demand for continual improvement in capacity. However, our review of decentralisation and PGBS (see Annex 6 and the summary of conclusions in Chapter D1, Box D1.1) indicates that IP responses have suffered from lack of coordination when contrasted with actions under recognised SWAps, such as those in education and health. It should be possible to build on the existing donor group for decentralisation; the first Joint Annual Review of Decentralisation (JARD) in 2004 was a useful beginning.

Other Issues in Capacity Development

C3.11 The PRSC has regularly included general public service reform actions, most notably pay reform, which has appeared as a prior action in all PRSCs to date (see Annex 3, Table 3C.3), but without notable success. However, addressing such issues is crucial if the GOU is to attract and maintain high-quality staff in central ministries, especially as private sector employment prospects are increasingly attractive.

C3.12 Reforms in PFM came more directly under the influence of MFPED, but such cross-agency reforms, inherently more difficult, have lacked the same bureaucratic and political backing. In principle, the shift of PRSC coordination responsibility to the Office of the Prime Minister (OPM) should increase opportunities for pursuing general public service reforms, but, as yet, the OPM lacks the authority and capacity that MFPED enjoyed for many years. Strengthening the OPM's ability to manage the PRSC process and monitor all aspects of its implementation will be a first requirement (Chapter B9).

C3.13 This relates to a more general point. In what is likely to be a more difficult environment for PGBS (a point developed in Chapter D2 below), it will be important for IPs (a) to reinforce and consolidate capacity gains already made – such as the strengthened links between policy and budgeting, which depend on the continuation of the medium-term budgeting process as a genuine budget challenge; and (b) to avoid undermining GOU systems, and drawing capacity away from GOU, by a reversion to the use of parallel systems.

C3.14 Capacity building for decentralisation is a particular challenge, while capacity building efforts linked to PGBS have so far focused mainly on central government. The challenge for PGBS in future is for the GOU to develop more coherent capacity building strategies across sectors (broadly interpreted to include such themes as decentralisation, PFM, public administration, as well as the conventional sectors) and to move beyond monitoring only the implementation of agreed actions towards ways of benchmarking and monitoring the performance and capacity of GOU agencies and systems.

C4. Quality of Partnership

Introduction

C4.1 PGBS was motivated by a desire to improve aid effectiveness. A key belief was that coercive conditionality was ineffective, and that IPs needed to promote ownership and support national strategies. The "partnership" is not simply between IPs and government: it embodies partnership among IPs, guided increasingly by the Rome and Paris agendas for increased harmonisation and aid effectiveness (OECD DAC 2003b, 2005b). Anticipated benefits from H&A were loosely summarised as "reduced transaction costs". In this chapter we (a) pull together our assessment of ownership and conditionality; (b) review transaction costs; (c) discuss other aspects of the interaction between aid modalities.

Ownership and Conditionality

C4.2 There is a direct relationship between ownership and conditionality, but not a simple one. Neither term is an absolute. There can be degrees of ownership of the policies that PGBS supports. We have noted, for example, that although successive PEAPs have become technically more sophisticated, there has been a weakening of presidential commitment to them. Reforms promoted through the PRSC have frequently had support from MFPED but needed to overcome resistance from other GOU agencies. Assessing ownership is not straightforward. With money at stake, there is an incentive for GOU participants to say what IPs want to hear. In any case, ownership is better indicated by behaviour than by statements. There are subtleties, too, in assessing conditionality. There is no doubt that many conditions continue to apply to PGBS, but the question is whether the nature of the conditions has changed in a way that is consistent with the PGBS intention to promote GOU ownership within a partnership.

C4.3 Miovic describes the PRSC intention as follows:

> The PRSC process aims to develop a relationship between the Government of Uganda and its donor partners, in which:
>
> – PRSCs operate a pure budget support financing mechanism;
>
> – The Government firmly leads and manages all aspects of the reform program across all sectors, including prioritisation of objectives, program design, implementation and monitoring, and impact evaluation; and
>
> – Donors play the role of technical advisors and facilitators. (Miovic 2004)

C4.4 There is evidence from Uganda as well as elsewhere of the failure of coercive conditionality (paying for reforms that the government does not believe in and is not committed to). Ddumba-Ssentamu et al describe clearly how the adjustment conditionality of the late 1980s and 1990s was ineffective in securing macroeconomic discipline until the point when the GOU itself became convinced of the requirement. At that point, the GOU adopted reforms that were more rigorous than the Bretton Woods Institutions (BWIs) would have attempted to impose and the Permanent Secretary of MFPED is quoted describing this as "the beginning of ownership".

C4.5 Some critics see present aid terms as barely disguised adjustment conditionality. They point to the number of explicit conditions attached to PGBS, and most obviously to the PRSC, and question whether the extensive involvement of the donors at all stages of the planning and budget cycle can be consistent with national ownership. Our judgement is that, on balance, there has been a significant change in the relationship although the danger of donors being over-intrusive is a real one. Conditions are drawn up jointly by the GOU and IPs; the GOU side is clear that it can refuse to include a particular condition. PRSC matrices have included many conditions not directly drawn from the PEAP but, as Booth and Nsabagasani point out, the first two PEAPs did not include the intermediate process indicators that are necessary for annual monitoring, and there is now a convergence between PEAP and PRSC matrices. The number of conditions, though often cited, is not a good indicator of the onerousness of conditionality. First, it is important to distinguish between targets that are simply an agreed focus of monitoring and those that serve as triggers or prior actions for the release of funds. Second, the latter are often negotiated to include actions that are already certain. The primary function of such conditions is not to make something happen that would not otherwise have happened, but to provide a signal to funders that the reform process is continuing to progress. They can have a secondary role in reinforcing and prioritising certain reforms ahead of others (see Box C4.1).

Box C4.1: Examples of a Positive Role for Policy Dialogue and Conditionality

Many GOU interviewees pointed to the positive role the dialogue and conditionality around the PRSC played in maintaining the pace of reform:

- The Integrated Financial Management System (IFMS) had high level, but narrow support within the Ministry of Finance, but limited support across government. Having prior actions relating to the IFMS in the PRSC gave the Ministry of Finance more leverage in implementation of the system. Now that the IFMS pilot is well under way, many of the sceptics have been won over.
- In the 1990s there was little discipline in preparing audit reports, and little pressure for the Auditor General to meet its statutory deadline. The emphasis in the PRSC on timely audit has helped support the Auditor General in ensuring that staff prepare reports on time, and now the onus is on Parliament and the Treasury to respond.
- In the education sector, the GOU failed to meet a condition relating to conducting and audit of the education sector due to concerns about financial management in local governments. Although the prior action was misconceived, this led to the a directive from the President that all local governments should comply with the law and submit monthly accounts to central government – which has largely been adhered to since then.

Source: Interviews with MFPED and OAG staff.

Transaction Costs

C4.6 Another practical concern is that the quality of partnership, and its constituent dialogue and conditions, is undermined by the high turnover of donor staff, and a lack of specialisation of those staff (although there is evidence of increased selectivity). This means that IPs often neither have the capacity to dialogue effectively with the GOU on technical policy issues, nor understand the political economy of the reform process.

C4.7 Reducing transaction costs has been seen as one of the principal objectives of the PGBS modality. The costs most often cited are those of multiple missions to negotiate and monitor a plethora of parallel aid instruments: the PGBS approach is seen as a way of reducing the costs associated with such duplication. However, transaction costs include the overheads of delivering and utilising aid at all stages of the cycle – not just negotiation and monitoring, but also disbursement and execution. Since budget support is disbursed, and procurement takes place, through a single GOU system rather than a variety of donor ones, there is a large transaction cost saving for GOU as well as for IPs. Annex 4A on the efficiency of public expenditure cites evidence that administrative overheads associated with standard GOU execution are substantially lower than for separate donor-funded projects with separate management arrangements, procurement procedures, etc.

C4.8 Miovic 2004 reviewed the financial costs to the World Bank of preparing and supervising PRSCs, and concluded:

the estimates suggest that Ugandan PRSCs transferred at least one and a half times the amount of dollars per unit cost of preparing these credits than the typical World Bank investment credit to Uganda during the period 1994–2003. Similar estimates from other donors were not available, but a number of them indicated that through the PRSCs more was being accomplished with the same level of staff input.

C4.9 In some ways the financial savings to the GOU and at least some of the main donors are less visible than the burdens associated with the frequency, size and demands for high-level GOU attention of the PRSC missions which are the centrepiece of the PGBS process. The interaction involved has benefits as well as costs to both sides, and the GOU officials involved make clear that the budget support approach is much preferred to other modalities. Nevertheless, there would be advantages in streamlining. This could be done (a) by basing the WB Task Manager in Kampala, instead of Washington (this has happened, effective 2005) and (b) by further use of the principle of "nesting" sectoral dialogue within the PRSC (PFM reform and decentralisation are two candidates for treatment as "sectors" in such an approach).

Interplay between Aid Modalities

C4.10 This is not a comparative study of different aid modalities. However, several aspects of interaction between modalities emerge strongly from the evaluation of PGBS. Notably:

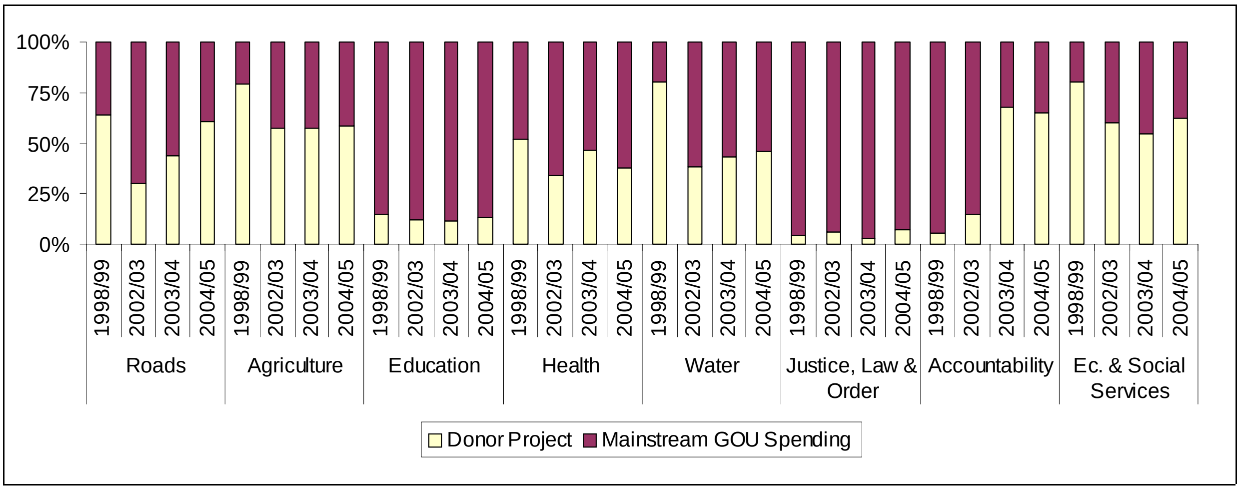
(a) There is not a clear division between GBS and sector budget support. This is particularly true in Uganda's context where SWAps have generally avoided parallel sector basket funds and worked through government disbursement systems, where sector earmarking is notional, and where there is a clear articulation between sector and general dialogues.

(b) There is much actual and potential complementarity between modalities. At the level of individual donor portfolios all donors use some mix of aid instruments; these partly reflect agency preferences and HQ rules, but they also match instruments to specific purposes and seek a balance of topic interests and a spread of risks. At sector and sub-sector level there are many complementarities – including complementarities between PGBS and non-PGBS donors (e.g. USAID's capacity building support for LGs which reinforces the fiscal decentralisation strategy although USAID is not a PGBS donor).

(c) There are also actual and potential dissonances. Thus we have noted that the scale of the shift into PGBS was certainly important: it made a non-marginal difference to the discretionary funds available to the GOU, and this was important in the strengthening of planning and budgeting that resulted. Conversely, the persistence of parallel project modalities has tended to undermine some of the efficiency gains from PGBS.

C4.11 The balance between GOU budget spending and project-earmarked funding varies systematically by sector – see Figure C4.1: this is drawn from the MTEF and shows the budget/project split for the past three years against the benchmark year of 1998/99. Of the major spenders, education stands out as the one where most public expenditure now takes place through the budget. Infrastructure sectors (roads and water) are much more dependent on projects, and so too are the agriculture and health sectors. In all these cases there was a marked increase in the GOU budget share between 1998/99 and 2002/03, but it has since tended to erode. There are likely to be general and sector-specific reasons for this. A general reason may be the erosion of trust between IPs and President Museveni prompting a reversion to project modalities (see Chapter C5 below). At the same time, each sector has characteristics that make it more or less amenable to project (and TA) modalities, and, related to this, the donors specialising in different sectors have different preferences among aid instruments. It is obvious that different modalities can be complementary; but this does not mean that the balance between modalities in any given sector is a matter of indifference. This is illustrated, for the health sector, by Box C4.2.

Figure C4.1: Balance between GOU Budget and Projects by Sector



Source: MTEF.

C4.12 In this context, the move to incorporate project aid within MTEF ceilings is of pivotal importance The move was announced at the October 2003 budget workshop, and incorporated in the 2003 Partnership Principles (see Annex 3D):

> 22. Sectors will have to budget within an overall ceiling set by the Government which will include all donor projects. This will be a hard budget ceiling, implying that an increased level of project support expenditures will have to be matched by lower GOU budget expenditures.

C4.13 The measure has been formally introduced from 2004/05. The rationale[44] is to:

- ensure that aggregate government expenditures reflect national priorities (and not donor priorities);
- ensure that specific sectors (such as health) are not unfairly penalised if donors shift from project support to budget support;
- provide incentives to donors and line ministries to shift aid from project support to budget support;
- enable MFPED to compile more accurate estimates of total Government expenditure and so improve macroeconomic planning.

[44] Cited in Beynon 2003.

Box C4.2: Interaction between PGBS and Other Modalities in the Health Sector

The following perspective on using PGBS to support Uganda's health sector was provided by one of the PGBS donors in the sector (comments have been edited)

The present situation is not totally favourable for GBS, mainly reflecting two factors:

- The USA has become increasingly unilateral over the period from 1994–2004 while also increasing its economic support to low-income countries – not least Uganda.
- The larger group of bilateral donors and the financial multilateral donors, themselves drawing on an increasingly strong set of private donors, have found reasons to use a split strategy of financing, including both GBS and project support. Support to Global Health Initiatives (GHI) has played a decisive role in the development of this policy split.

GBS now exists in a complex policy environment for development aid. This environment includes both an increasing share of support via projects and – specifically for Uganda – strict implementation of cash limit budgeting in the format of MTEF ceilings. In combination, these two features of the policy environment may marginalise GBS and create a situation where *some aid* is being delivered through GBS but the positive effects of GBS are never allowed to appear, since improved ownership, lowered transaction costs, etc. are overshadowed by the competing effects from project financing mechanisms.

The health sector is particularly vulnerable to these dynamics because of its large share of heavy project funders. The "mixed strategy" of health aid financing is driven by forces operating both on the donors' side and on the recipient side:

- On the donor side, a common reaction is that GBS means a considerable loss of "profile" for the donor. On a rather naïve level, it can be described as the frustration felt by GBS donors who have listened for the n^{th} time to praise from civil society, districts and ministries directed to project donors – always named. The GBS donors – often giving much more money – on the other hand are rarely mentioned. On a more serious note, GBS may be understood as "endless" in contrast to projects that appear to be limited in time. This suits many donors who need to make decisions for aid in a limited time scale – often 2–4 years. It is also possible that arrangements between public donors and private donors in Public Private Partnership (PPP) exclude the use of GBS and, since these arrangements have become increasingly popular, GBS suffers.
- On the recipient side, GBS suffers for two very important reasons:
  - The line ministry – MOH – finds its financing volume for Health Sector Strategic Plan (HSSP) realisation untenably low and seeks additional finance. MTEF ceilings prohibit extra money from coming in through the GBS mechanism, while project money often finds its way through the MFPED MTEF net. Thus seeking GBS is only a way of supporting the general PAF fund, without any positive effects on the health budget.
  - Ministerial and district staff are generally underpaid. GBS does not let any money "go their way". Project money is a different story. A multitude of workshops and training seminars are set up including the use of per diems and similar allowances. Project managers sometimes offer their counterparts in government and districts foreign travel to allow participation in conferences abroad.
- Projects also tend to allow for decentralised decision making within recipient organisations. Programme managers can control the use of funds and do not risk losing money to other areas of work through reallocation decisions by higher-up managers.

Source: IP comments in response to the draft version of this report.

C4.14 However, the Partnership Principles do not provide criteria for establishing an optimal (or best fit) combination of modalities in different sectors. The challenge – for GOU and IPs working together – is to establish sustainable financing strategies for each sector that are macroeconomically consistent,[45] that take account of the comparative advantages of different modalities and different IPs, but that do not perpetuate incoherence and decapacitation of government systems. There is, however, a danger that IPs, under pressure to disburse, will increase off-budget aid. The OECD DAC data indicate this may actually be happening (see Chapter A3, Figure A3.1).

[45] The Long Term Economic Framework that MFPED has developed is a relevant focus.

C5. Political Governance and Corruption

Introduction

C5.1 The term "governance" is used to embrace a whole spectrum of political and technocratic issues, from the democratic basis of the state to procedures for ensuring propriety in public expenditures. IPs have different mandates and attitudes towards engagement in the more political aspects of governance. The PEAP itself includes governance among its principal pillars, and PEAP3 has reinforced the emphasis on various aspects of governance, including security, as determinants of welfare and conditions for development.

C5.2 "Democracy and human rights" is among the CCIs mentioned specifically in the study TOR, but in practice this is enmeshed with wider issues of (political) governance. The salience of governance issues has been affected by two trends: (a) globally, an increasing attention to the role of governance in development, and, directly, as an aspect of welfare (empowerment); (b) changing IP perspectives on the political governance performance of the regime in Uganda. At the political end of the governance spectrum, differences in approach appear between IPs, related to their different interests and mandates.

C5.3 Concerns over human rights have become more prominent during the course of the evaluation period. In the mid-1990s the programme aid review was able to observe a move away from macroeconomic dialogue towards concern with "second generation" issues, and commented:

> Among these second generation conditions, the political system and the human rights situation are notably absent. Donors have by and large accepted the no-party democracy and judge the human rights situation as satisfactory and in any case as better than in neighbouring countries. (Ddumba-Ssentamu et al 1999)

C5.4 Since then, a number of important bilateral donors have become impatient with the NRM version of democracy, and more proactive about human rights. Their concerns are reflected not only in their highlighting of governance issues but also in complementary activities, including support to civil society and NGOs in the field of human rights, and the SWAp that has developed for the Justice, Law and Order sector (JLOS[46]) within government. These activities are not at all inconsistent with a PGBS approach, but there is an appreciable risk that high-profile problems over human rights could jeopardise the continuity of donor support for PGBS. Corruption has also emerged as an issue that poses special risks to PGBS.

C5.5 In this chapter we:

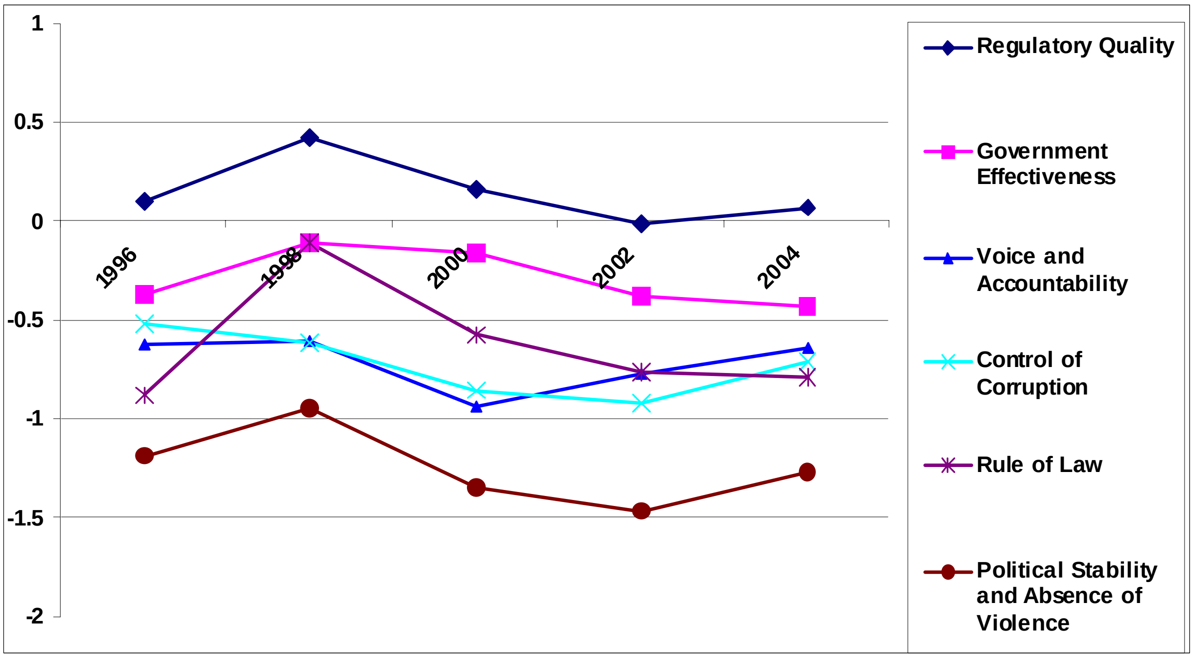
- review governance trends;
- note the way governance issues have featured in the (PGBS and wider) dialogue;
- discuss corruption in particular; and finally,
- comment on democratic accountability.

[46] The JLOS SWAp was a Ugandan initiative which recognised that JLOS needed to be better organised, not least to compete for (PAF and other) resources with the earlier SWAps in health, education, etc.

Governance Trends

C5.6 One of the factors facilitating additional and innovative IP support for Uganda from the mid-1990s was its reputation for being relatively well managed. Uganda remained in the top CPIA quintile in 1999 and 2003[47] but a more detailed review of publicly available governance indicators helps to explain the changing donor mood. Figure C5.1 shows Uganda's performance from 1996 on the six composite governance indicators published by the World Bank. All the indicators were moving upward between 1996 and 1998, and all moved the other way thereafter. Most show some improvement between 2002 and 2004, but all remain below 1998 levels.

Figure C5.1: Governance Indicators for Uganda 1996–2004



	1996	1998	2000	2002	2004
Regulatory Quality	0.10	0.42	0.16	-0.02	0.07
Government Effectiveness	-0.37	-0.11	-0.16	-0.38	-0.43
Voice and Accountability	-0.63	-0.61	-0.94	-0.77	-0.64
Control of Corruption	-0.52	-0.62	-0.86	-0.92	-0.71
Rule of Law	-0.88	-0.11	-0.58	-0.76	-0.79
Political Stability and Absence of Violence	-1.19	-0.95	-1.35	-1.47	-1.27

The World Bank has published composite governance indicators for 1996, 1998, 2000, 2002 and 2004, covering the six areas shown. The indicators are updated every two years. All relevant information (including data, methodological papers, interactive charts, and world maps) for the last round of updates (2004) is now posted on the web at: http://www.worldbank.org/wbi/governance/govdata/. The next round of governance indicators will be posted in early 2007. The indicators are revised periodically, so scores presented now are not necessarily the ones that were available at the dates they refer to. Indices are calibrated against a norm-referenced score of zero.

C5.7 A number of factors have eroded the IP attitudes described in 1999 (¶C5.3 above). These include, most recently, the constitutional amendment to remove presidential term limits, President Museveni's decision to seek a third term, and the treatment of opposition parties and

[47] Data cited in Eifert and Gelb 2005. The World Bank's Country Policy and Institutional Assessment ratings play a strong role in determining its country allocations of resources.

candidates. Longstanding disquiets include the continuing conflict in the north (seen by some observers as convenient to the regime – see Barkan et al 2004), defence expenditures and procurement scandals, Uganda's role in the DRC, and evidence of high-level corruption on a large scale. The use of public resources to dispense political patronage (a strong motivation behind the proliferation of new districts) has prompted a belated recognition that Museveni's system is, after all, much more like other patrimonial systems than was once supposed.

Governance in the Dialogue

C5.8 Successive PEAPs have included governance issues as one of their main themes, and the treatment of governance in PEAP3 is more extensive than in its predecessors (see Annex 3C, Table 3C.1).

C5.9 During the early years of PGBS it became apparent that a number of bilateral donors wished to engage the GOU on a range of issues that extended beyond what the World Bank saw as its mandate. The bilaterals' concerns led them to develop an additional "Governance Matrix". This raised issues that were not covered in the PRSC matrix, under four headings: the democratisation process, the human rights situation, transparency and accountability, and national and regional security interests. A joint donor technical group[48] was established to monitor progress against proposed actions and output targets, but initially they found it difficult to engage with the government on their issues of concern. The matrix is now discussed with the OPM rather than MFPED, and is based on the "Good Governance and Security" pillar of PEAP3. However, as we have noted, the present PEAP does not have the strength of political ownership that was attached to the first one.

C5.10 The Governance Matrix was given added impetus by a crisis for all the GBS donors that was prompted by the defence budget saga of 2002/03. The GOU announced a substantial increase in defence spending after the budget had already been appropriated. There was a significant difference in stance between the World Bank (which interpreted its mandate as allowing it to take a strong stand on the grounds that the GOU had not adhered to the agreed budget but was wary of commenting on the merits of defence expenditure per se) and the bilaterals, which were less inhibited in including the level of defence spending as itself a legitimate concern. The outcome was that all donors delayed disbursements; the UK and the Netherlands actually cut disbursements. Ireland reacted by requesting that the rest of its GBS funds be reassigned to the PAF. In an echo of this episode in 2005, a number of donors (including the UK, Norway, Ireland) announced significant reductions in budget support to signal their dissatisfaction with progress towards a more democratic political system.

C5.11 The governance matrix sought to make bilaterals' concerns more explicit, but it could not be linked to disbursement conditions in a very mechanical way, partly because of the nature of the issues themselves, but also because, although the bilaterals would all have regard to the same set of issues, they might evaluate them differently. The governance matrix illustrates a key point about GBS: it offers a way to engage with government on governance issues that is not provided, or not so directly provided, by project or sector approaches. At the same time, it illustrates the limitations of such engagement: it provides an avenue of communication, and there is progress at technical levels and where there is a strong constituency for reform on the

[48] The joint donor technical group is called the Partners for Democracy and Governance (PDG). The following working groups are under the PDG: Democratisation Working Group; Human Rights Working Group: Anti-Corruption; and Northern Ugandan and Recovery from Conflict Working Group.

GOU side (valuable progress through the JLOS SWAp comes into this category[49]); but budget support cannot "buy reforms" or ensure government behaviour that meets IP standards of democracy when the governing regime feels that its fundamental interests and ultimate survival are at stake.

Corruption

C5.12 Corruption takes many forms, ranging from the "petty corruption" at facility level to "grand corruption" and looting of state resources. Corruption is not necessarily for strictly personal gain: the financing of political parties and election campaigning is expensive and is commonly funded by the (mis)appropriation of state resources. With regard to the latter, it has become increasingly clear that Uganda follows much the same political pattern as most other African states and this has contributed to the tension between the NRM regime and its aid partners (Barkan et al 2004).

C5.13 The evidence on whether corruption is on the increase or decrease is not conclusive; but corruption is undoubtedly high, and Uganda is ranked among the 15% of countries suffering most from corruption (Transparency International 2004) and is given a rating of 2 out of 6 in relation to corruption in the International Country Risk Guide. However, the Second National Integrity Survey (Inspectorate of Government 2002) indicated some improvement in corruption. The consolidated index in Figure C5.1 above shows some improvement between 2002 and 2004 but still a net deterioration since 1998. There are also signs that there have been big improvements in funding reaching core services since the early 1990s (Reinikka et al). However, there is concern among development partners that there is little being done to tackle high-profile cases of corruption. At the other end of the scale, corruption in procurement, including LG procurement (Country Integrated Fiduciary Assessment – World Bank 2004c) is an immediate practical concern.

C5.14 From the outset, PRSC prior actions have included measures to tackle corruption (the Leadership Code first featured in PRSC1), but the demanding and technical legislation that has resulted was probably not commensurate with the political and technical context in Uganda – in short they required too much change too early on to yield significant impact. At the same time, the PGBS dialogue has been the main opportunity to address such issues in a systematic way. Much less spectacular work has been done to strengthen financial and procurement management systems, to increase transparency, to improve the management of a variety of public services. Thus, budget support (and the earlier HIPC initiative) have resulted in much more attention to fiduciary standards in the management of public resources (see Annex 4B), but there is a sense of disappointment among at least some donors that there has not been more dramatic progress in reducing corruption. Miovic (2004) observes:

> There has also not been a notable improvement in the level of perceived corruption in Uganda, which should have resulted from the introduction of stronger processes in public tendering, financial management, transparency and accountability. The continuing problems of corruption reported at a local government level are especially troubling because moving governmental initiatives to the local level is an essential part of the poverty reduction strategy. On the other hand, many of the anti-corruption initiatives are fairly recent, and it may take some time for benefits to emerge. It will also require a sensitive tracking process that both detects changes in corruption, at the same time as identifying the emergence of more opaque corruption techniques, and any unintended but dysfunctional consequences resulting from these reforms. In any event, as long as the incentives that encourage corruption remain strong, and follow-through on the law enforcement side remains weak, it is unlikely that rules, improved procedures and policing, without parallel socio-economic improvements, will radically change the situation.

[49] Although it is not formally linked to the PDG structure.

C5.15 Corruption poses a number of threats to PGBS. The biggest is probably its ability to influence donor sentiment against budget support. This has two related sources: first, perceptions of high-profile corruption and of waste undermine public support for aid in donor countries. Second, there is an assumption that project aid is immune to fungibility in ways that budget support is not. Barkan, for example, takes this as axiomatic, although it is not at all self-evident that project aid is immune to corruption or to direct or indirect diversion, while there are significant safeguards built into the transparency of GOU budgeting, and the agreement on budget composition as a basis for budget support. What experience does seem to show is that budget support is more vulnerable than other forms of aid when the quality of the relationship between government and IP deteriorates and the IP wishes to distance itself from the regime. This creates a contradiction between the long-term systemic effects sought through PGBS and its immediate political vulnerability. This is likely to be a continuing challenge for Uganda's aid partners (see Chapter D2).

Governance and Democratic Accountability[50]

C5.16 Objectives of PGBS include strengthening of domestic accountability in various different ways. Bringing more funds on-budget automatically has the effect of subjecting more public resources to the national systems of scrutiny, but much depends on the quality of those systems. There have been substantial technical improvements to financial management systems and procedures, but translating this into higher levels of *democratic* accountability requires more than strengthening the mandates and improving the capacity of the national bodies involved (bodies such as the Auditor General, the Inspectorate of Government, the Public Accounts Committee of Parliament and PACs at local level), although this is clearly necessary.

C5.17 Although many of the dialogue mechanisms through which IPs work have served to strengthen participation and accountability in government processes, we have also noted that PGBS does not always have a positive effect. Most notably, donor intervention in sector and budget processes can drown out domestic voices, whether of Parliament or civil society. Donor-driven reporting mechanisms can distract from the need to provide domestic stakeholders with information that will enable them to hold the state to account, whether at central or local government.

C5.18 A more fundamental issue is that the nature of political competition in Uganda, with its bias towards patronage rather than offering competing policy choices, does not foster the type and standards of democratic accountability that western donors expect at home and aspire to abroad. This is not to say that the objectives are inappropriate, nor that no progress is possible (PGBS is directly implicated in the progress that has occurred). But there does need to be realism about the speed and the depth of change that can be brought about through what are essentially technocratic means. IPs therefore need to persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.

[50] Parts of this section are adapted from Mokoro Ltd 2003.

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS

D1. Overall Assessment of PGBS in Uganda

Introduction

D1.1 This chapter provides our overall assessment of PGBS during the evaluation period. We note, and try to explain, its strengths and weaknesses. In Chapter D2 we consider the future prospects for PGBS, and in Chapter D3 we summarise our recommendations.

Overall Assessment

D1.2 PGBS is conceived as a combination of inputs, not limited to finance. However, both the volume of finance (nearly USD 1.8bn from 1998–2004) and its scale (rising to over 50% of ODA receipts and 30% of public expenditure) are important. It prompts two obvious questions: (a) was this volume of money well spent? and (b) how much did any non-financial effects of PGBS depend on the scale at which budget support was delivered?

D1.3 We return to the second question later (¶D1.11). As regards the first, our judgement is that, on the whole, these funds were well spent. PGBS funds have supported increasing public expenditures which have been relatively well aligned to a relevant poverty reduction strategy. Most importantly, PGBS has enabled the GOU to expand the delivery of basic services to the poor through decentralised bodies quicker than otherwise would have happened. As we showed in Chapter B3, there have, on balance, been gains in both allocative and operational efficiency. It is highly implausible that an equivalent disbursement could have been achieved through project modalities alone, or that the composition of expenditures would have been so appropriate if it had been. Nor would the same coherence and appropriateness of expenditure have been likely if all reliance had been on sector-earmarked transfers.

D1.4 In addition, the manner of the transfer, including the complementary inputs that accompanied the finance, clearly led to some of the institutional effects hypothesised in the Enhanced Evaluation Framework. In particular, it has supported alignment and harmonisation of aid, and a stronger budget process linking policies to expenditures and promoting efficiency in the use of resources. It has had a mutually reinforcing relationship with sector planning and coordination mechanisms, and was instrumental in the rapid implementation of an ambitious decentralisation strategy. Although accountability to IPs has sometimes taken precedence over accountability to domestic stakeholders, the overall effect of IP concerns for accountability has been to strengthen accountability systems that are of value to both domestic and international stakeholders.

D1.5 PGBS has not been a complete transformation of relationships between the GOU and IPs, but it is much more of a partnership than the pre-HIPC structural adjustment conditionality, and has helped to extend GOU ownership across aid modalities. The focus on government systems has helped to strengthen transparency and raise some fiduciary standards, although fiduciary risks remain high. PGBS was linked to a strategy (built on the HIPC approach) that prioritised basic public services and, in hindsight, paid too little attention to income-generation issues, on the one hand, and to the quality and pro-poor targeting of public services on the other. The pace of expansion inevitably had a cost in efficiency, and put the capacity and the accountability mechanisms of local governments under enormous stress (see Box D1.1).

However, the systems of dialogue and policy review associated with PGBS enable such issues to be confronted, and these early imbalances are beginning to be rectified.

D1.6 PGBS was not pre-planned to turn out as it has. There were large elements of good fortune and pragmatism in its development. In particular, at a time when sound macro-economic management of the economy had been established and growth trends were favourable, there was a fortunate coincidence of interests around a poverty reduction and institutional development agenda that could be supported by a coalition of the President the Ministry of Finance, Planning and Economic Development and the donors. MFPED's agenda of budget discipline and medium-term planning, together with its willingness to engage the donors openly in the policy and budget processes, allowed the Poverty Action Fund to develop into the flagship for a comprehensive system of budget support. The institutions associated with PGBS in Uganda have shown a significant ability to review and adapt to experience. As events during 2005 have shown, and as we discuss in the next chapter, the ability to adapt will be even more important in future.

Findings on Causality

D1.7 Each chapter in Part B has investigated specific causality links. In Annex 5 we present a summary of the findings for the different links and levels of the causality map. Attribution of causality is complicated by several factors. In particular, many of the non-financial inputs of PGBS (dialogue, conditionality, harmonisation and alignment, technical assistance and capacity development) are shared with other modalities. For example, there are joint systems of dialogue and review in which both PGBS and non PGBS partners participate, and TA support is often provided in this context. Thus we have judged TA and CB to be PGBS inputs where they are explicitly linked to the IPs' PGBS strategy, even though they may have preceded PGBS and may be delivered by parallel instruments. Also, there was already a head start towards some of the possible objectives of PGBS. Thus, macroeconomic discipline had already been achieved, and PGBS served to reinforce and empower, but not to initiate, a policy and planning system that MFPED had already put in place.

D1.8 The causality links that can be most confidently identified are those that stem primarily from the flow of funds. The policy and institutional effects arising from the non-financial inputs of PGBS, most notably policy dialogue, conditionality and TA have been less pronounced, but significant all the same. They have had strong effects on harmonisation and alignment, and supported useful joint processes of policy analysis and review which have engaged with a wider range of issues, and IPs. In areas such as sector policy and public finance management reform the positive effects of the non-financial PGBS inputs are evident. In such circumstances, the combination of PGBS technical and institutional support with agreed performance undertakings actually provides useful managerial pressure to those implementing reform initiatives, and helps maintain the momentum of improvement. PGBS has reduced the overall transaction costs of aid while helping to strengthen national PFM systems.

Box D1.1: Conclusions on PGBS and Decentralisation

The relationship between PGBS and decentralisation is reviewed in detail as a case study in Annex 6. Its main conclusions are:

1. PGBS has strongly facilitated an increase in funding of LG services and service delivery, particularly in the PAF areas, which would not have happened to the same extent with alternative aid modalities. The combination of PGBS, the PAF ring-fencing of funds, the SWAps and the inter-governmental fiscal transfer system provided both sector ministries and the donors with sufficient confidence that funds will be channelled through the LGs towards service delivery.
2. This was supported by progress towards harmonisation and alignment with GOU procedures and improved coordination of capacity building to LGs. This has enabled the LGs to fulfil many of their service delivery responsibilities as stipulated in the 1995 Constitution and the 1997 LG Act.
3. On the negative side, there have been problems with LG autonomy and lack of flexibility, questions over long-term sustainability, increasing dependency due to lack of an overall strategy and measures to improve LG own-source revenues, a tendency to focus on upward accountability (a kind of a deconcentration mode promoted by the strong SWAps and PAF conditionalities).
4. However, important measures including the Local Government Development Programme (LGDP) and the Fiscal Decentralisation Strategy (FDS) are addressing the difficult tasks of combining the adherence to national PEAP targets, confidence in the safeguarding of funds and minimising of risks, on the one hand, with, on the other, the aims of ensuring devolution in accordance with the original decentralisation objectives on local empowerment.
5. Recent policy initiatives, by making senior LG personnel more directly accountable to the centre, will have a severe governance impact. However, these recent events should not overshadow the past 10 years' experiences of a system that has gradually built up capacity at the local level to respond to service needs, gradually, although slowly, improved the weak interaction with the citizens, gradually provided more openness in administration (e.g. publication of transfer figures, planning and budgeting conferences etc.), and innovative initiatives such as the LGDP and the FDS to improve the LG performance incentives and the LG planning and budgeting autonomy and performance. PGBS has had a positive impact on this process, but development of efficient tools to improve downward accountability continues to be a future challenge.
6. Some recent developments have been of a highly political nature. But it has been acknowledged that the lack of an overall strategy, the fact that the PEAP has not sufficiently addressed the decentralisation issues, and the absence of a SWAp with a clear strategy, structure, funding arrangements and policy and review process, has made it easier to "swing the pendulum".
7. Dissonance between the "decentralisation group" (the Ministry of Local Government, the Local Government Finance Commission, the Uganda Local Authorities Association and the "like-minded" donor representatives) on the one hand, and the main sector ministries on the other, has been mitigated – but there is still a long way to go in mutual recognition and coordination.
8. In future, there is a need for better linkage between the decentralisation reform agenda and sector reform work, public administration reforms, PFM reforms, and the PRSC framework, including the dialogue on actions and prior actions (policy matrixes).
9. Stronger emphasis on strengthening of downward accountability and involvement of citizens in local decision making and supervision is needed.
10. Furthermore, there is a need for a high policy-level coordination of the overall decentralisation reform process. The Joint Annual Review of Decentralisation (JARD), as undertaken in 2004 and 2005, is a promising initiative, but needs more prominence and follow-up. The Local Government Strategic Framework and LG Investment Plan, developed in late 2005, are also important steps. It is crucial that these initiatives avoid movements in various (conflicting) directions, and involve common initiatives across stakeholders to ensure that decentralisation gets a stronger role in the overall reform process. PEAP3 has highlighted a number of the future challenges, particularly the need to increase LGs' own-source revenues towards a more sustainable system.[51]

[51] Poverty Eradication Action Plan (2004/05–2007/08), Ministry of Finance, Planning and Economic Development, p. 118 and p. 235, where it is stated that the LG revenue, as a share of the total LG budget, should increase from 6% in the baseline year, 2002/03, to 9% in 2007/08. With the abolition of the Graduated Tax, it is hard to see how this will be fulfilled.

D1.9 Further along the levels of the evaluation framework, it would be wrong to expect a very mechanical relationship between PGBS and fluctuations in headline poverty, but we conclude that PGBS has been an appropriate way of supporting the GOU's poverty reduction strategy in Uganda. No such strategy is perfect and it can certainly be argued that the strategy has been too heavily weighted towards the delivery of public (mainly social) services. However, this was an obvious starting point and has provided early gains together with lessons of experience that are helping to refine the service delivery strategy itself and also resulting in an increased focus on income-generation, as well as on other important aspects of the enabling environment for poverty reduction. The financial flows of PGBS have been generally supportive of the macroeconomic environment.

D1.10 There have been some unanticipated adverse effects; although significant, they have not been sufficient to outweigh the benefits. These have included increased budget financing costs through sterilisation,[52] the likely efficiency losses from such a rapid expansion of the level of public expenditure as seen in Uganda; the observed undermining of local government revenues (although there has, as yet, been no similar observation concerning central taxation); and some negative impacts of aid inflows, in part fuelled by PGBS, on the terms of trade and private sector investment. None of these effects is unique to PGBS as a modality. On the other hand, the role of PGBS in facilitating the roll-out of the decentralisation strategy can be counted as an initially unanticipated positive effect.

Strengths and Weaknesses

D1.11 The key strengths of the approach to PGBS in Uganda have been as follows:

(a) There was a clear and decisive shift in aid instruments towards PGBS in the context of rapidly increasing aid flows, which meant that PGBS doubled as a share of public expenditure while project support declined. This meant that, in financial terms, there was a clear shift in approach among many IPs in the way they provided aid, while there was a commensurate increase in resources being allocated through a strengthening and forward-looking national planning and budget process; in turn this allowed non-marginal overall improvements in allocative and operational efficiency of public expenditure.

(b) The use of notional earmarking, via the PAF and in sector budget support, allowed MFPED to reorient allocations to public service delivery in line with its own PEAP priorities, while using government systems and maintaining IP confidence. As part of this, the use of discretionary resources to increase funding to local governments for basic service delivery was also a strength.

(c) Budget support inputs are increasingly aligned towards the PEAP and sector strategies, which themselves are increasingly aligned with each other.

(d) The arrangements for coordinated dialogue at cross-sector and sectoral levels, which have facilitated an increasingly coherent dialogue, and allowed donors to support the government's reform agenda. Important aspects include the delegation of sector issues to sector review processes, and the increased selectivity of donors in the dialogue process.

(e) Conditionality and policy dialogue have been used as instruments to refine, prioritise and monitor policy undertakings in ways that exert managerial pressure and help to maintain the pace of reform; the occasional combination with TA and CB programmes has further added to success.

[52] But sterilisation costs are associated with aid as such, not budget support in particular. They are attributable to PGBS only insofar as PGBS enabled the aggregate flow of aid to be higher than it would otherwise have been.

D1.12 Meanwhile there have been some weaknesses in the way the budget support instrument has been applied, which detract from its effectiveness:

(a) The sheer number and lack of standardisation of budget support instruments has two detrimental effects:

- It undermines the incentives provided by PGBS policy dialogue and conditionality to maintain the momentum of the reform programme, and blurs the signals the development community can provide the GOU when government performance is off an agreed track.
- It creates a degree of uncertainty in planning and financial management, given the lack of alignment with the MTEF and varying disbursements. (Up to now high foreign reserves have smoothed this, but effects could be more serious in a tighter situation.)

It may be argued that, accidentally, this lack of harmonisation among budget support instruments reduces the risk of "herd behaviour" by donors in withdrawing support, and that it thereby has some of the benefits of a graduated response. However, as we explain in Chapter D2, the issue of graduated responses needs to be more purposefully addressed.

(b) There has been a mismatch between the focus of the cross-sector policy dialogue, and the major areas in which PGBS funds have had their greatest effects. For example, while the focus of dialogue and TA on PFM reform has been on the central level, achievements in service delivery have been mainly at the local government level. This means that the potential complementarity of PGBS inputs has not been fully exploited.

(c) Although it is increasingly aligned with the PEAP, the broadening scope of the cross-sectoral dialogue with respect to cross-cutting reforms dilutes the effectiveness of that dialogue (attempting to prioritise too much at once). At the same time there is a lack of coherence in key cross-cutting reforms, despite the opportunity presented by the PRSC to address them more strategically. This applies particularly to the coordination of TA/CB with other inputs.

(d) High turnover of donor staff and a lack of training on the GOU systems they are supporting undermine the quality and value added of dialogue between donors and government.

(e) Partly for this reason, there has been a tendency for the public expenditure dialogue to be distracted towards headline areas where progress is less likely, at the expense of detailed work on areas where gains could be made. Expenditures on public administration and defence are areas of legitimate donor concern (although not simple), but there has been less donor attention than there could have been to practical aspects of the allocative and operational efficiency of expenditures where progress is more feasible (e.g. the more detailed work on pro-poor expenditures we discussed in Chapter B3).

(f) The Poverty Action Fund (in the way that it selectively protects particular budget lines) is now increasing rigidity in the budget and undermining the incentives for programmes within the PAF to improve efficiency.

(g) Some opportunities to reinforce democratic accountability in the budget process have been missed, and some donor actions have tended to undermine domestic accountability.

The Importance of External Factors and Counterfactuals

D1.13 It is important to emphasise that PGBS has only contributed to, but did not create, many of the successes of Uganda in terms of public sector reform and poverty reduction. Four key factors underlie that success:

(a) Strong political support to poverty reduction and the agenda for reform, including macroeconomic stability, market liberalisation and budgetary reform during the 1990s (which is now somewhat distracted by the political transition).

(b) Technical leadership in the Ministry of Finance, and a consequently strong and open budget process in the lead-up to budget support. Innovations such as the PEAP, SWAps and the PAF also emanated from this.

(c) Exogenous factors such as commodity prices and most notably the coffee boom in the 1990s.

(d) Political and technical support to administrative and fiscal decentralisation, which was embedded in strong legislation prior to the move to PGBS (but which has recently been diluted).

D1.14 Without these factors, the effects of PGBS would have been weaker. Another way of making the same point is to say that the timing of PGBS was fortunate, in two senses: it began when the enabling conditions just noted were favourable; and it coincided with a period of political stability and economic progress that made it easier for IPs to justify and maintain their increased level of support to Uganda. Recent changes in the political climate, the apparent slow-down in poverty reduction and erosion of MFPED's status within GOU suggest that PGBS in the coming years will be a rougher ride.

D1.15 Another important question to ask is whether the achievements we have noted could have been achieved with another mix of aid instruments. First, it is very unlikely that many of the positive effects of PGBS would have been possible using project support. Although projects could have been oriented more towards strategic plans in the context of SWAps, the alignment could not have been as effective. In the absence of policy dialogue and agreed conditionality, the rapid pace of sector and cross-sector reforms could not have been maintained. Moreover, the level of disbursement required is implausible through projects, which are not a good instrument for financing recurrent costs. Even if more project aid had been brought on-budget in the hypothetical no-PGBS scenario, they would not have supported the strengthening of planning and budget systems in the same way. A more plausible means of scaling up disbursements, in the absence of PGBS, would have been through genuinely earmarked budget funding. This would have had higher transaction costs and would most likely have disbursed less reliably than PGBS. Notionally earmarked sector and PAF budget support without a complementary element of full budget support would have been more difficult for GOU to manage efficiently, the effects on PFM reform would have been less pronounced, and it would not have provided such an effective entry point for addressing systemic and cross-sector reform issues.

D1.16 We have noted that the pre-existence of fiscal discipline and government commitment to economic liberalisation were important enabling factors for PGBS. In turn, PGBS, by increasing resources available, and by reinforcing the domestic credibility of MFPED and BOU, has helped to sustain macroeconomic and fiscal discipline and allow market-oriented policies to become more embedded.

Conclusion

D1.17 Our overall assessment of PGBS is therefore positive. It has been an efficient and effective means of delivering aid which has contributed to poverty reduction by supporting a national poverty reduction strategy. It has been most effective when flow-of-funds effects have combined with policy and institutional effects. Certainty about effects and their attribution is less at later stages in the causality chains, where influences are multiple and causality is therefore more complex. Nevertheless it is clear that PGBS has helped to finance a rapid expansion of basic public services, fuelling decentralisation in the process. At the same time it has supported a strengthening of public management systems and reinforced generally benign economic management.

D1.18 PGBS has also shown an ability to reflect and evolve, which augurs well for sustainability. However, a divergence of interests between the incumbent government and donors, and a decline in the relative strength of MFPED, may make relationships more difficult in future.

D1.19 PGBS has significant external effects in improving the environment in which other aid instruments are implemented. Its characteristic effects would not have been achieved by earlier forms of programme aid, nor through reliance on project-earmarked aid alone. However, as we shall discuss in the next chapter, achieving an appropriate balance between modalities is one of the main challenges ahead.

D2. PGBS in Uganda – Future Prospects

Introduction

D2.1 This evaluation has been completed at a difficult time in donor–GOU relations and some may find our positive assessment of PGBS in Uganda at odds with the atmosphere in early 2006. This report, with its annexes, lays out the evidence we assembled. Our conclusions are based on a systematic review of that evidence, following a methodology which is exceptionally rigorous. This led us to the positive (though by no means unqualified) assessment of PGBS expressed in Chapter D1. Yet the present situation in Uganda (the severe tensions between many IPs and the incumbent government) does point to a central dilemma that PGBS faces. On the one hand, it is intended as a long-term partnership able to support processes of institutional development and reform in ways that previous, more fragmented and didactic forms of aid have struggled to achieve. On the other hand, it appears especially vulnerable to changes in the political climate, both within Uganda and among IPs. A central challenge for the PGBS donors is to find practical ways to resolve this paradox. In this chapter we identify some of the factors that will influence the prospects for PGBS in Uganda in the coming years, and suggest how donors and the government of Uganda should respond.

Context

D2.2 The factors that motivated PGBS in the first place continue to be relevant, and some may be reinforced. Insights into the futility of coercive conditionality remain valid. So do the analysis of the costs, lack of sustainability and potential damage to national capacity inherent in unharmonised supply-driven aid. OECD donors are committed to providing more, as well as more effective, aid.[53] Budget support features strongly in plausible strategies for scaling up aid. On the other hand, international concerns for better governance and for human rights will not diminish.

D2.3 Within Uganda, PGBS will need to adapt to a less favourable political and institutional environment. It appears that the areas where IPs and the GOU are unable to find common ground are increasing, and there is less congruence at the political level between NRM regime objectives and those of the donors. (Several observers have commented that this is not unusual; it was the previous high degree of harmony between IPs and the NRM regime that was exceptional.) The 2006 presidential and parliamentary elections will be a particularly testing time. Simultaneously there is need for IPs to adapt to an institutional environment where their principal point of engagement is no longer the Ministry of Finance, and where MFPED may struggle to maintain its authority in the context of a more constrained budget, a diminution of political support from the higher reaches of government, and a possible threat to the integrity of the budget (if resource allocation responsibilities are transferred to the National Planning Authority).

The Challenge

D2.4 The challenge in this more uncertain environment is to adapt PGBS instruments to achieve a balance between their role as a support for long-term development strategies, and the need to be responsive to performance, including, at times, political issues that may threaten the relationship. A first concern for IPs should be to protect the gains that PGBS has supported thus

[53] The Paris Declaration (High Level Forum 2005) is the most recent commitment to more effective aid.

far – particularly the exceptionally coherent resource management system, the link between policy and budgeting that has been developed, the transparency that accompanies PGBS and the ability to maintain the demand for continuing improvements in PFM standards and accountability. The danger is that a series of individual decisions by IPs could lead to an unravelling of the aid management system that has developed. The principle of graduated responses is relevant here, and should be seen not as a purely PGBS issue but as part of the challenge of aid management strategy for both government and donors.

D2.5 What is required is long-term predictability from IPs in delivering a coherent package of aid linked to the implementation of the PEAP, which provides clearer and more consistent signals to the GOU. In addition there should be a more strategic review, by IPs with the GOU, of the sustainable medium-term and long-term expenditure requirements for each main sector, given macroeconomic constraints, with explicit attention to the appropriate balance between aid instruments in the sector. This has implications for both the GOU and donors.

- For the GOU: the Partnership Principles are important, not least in their assertion of GOU responsibility for aid management and coordination. The GOU's "order of preference" for different modalities is rational, but GOU policy on aid instruments could usefully be fleshed out to specify more clearly in what circumstances different modalities are more appropriate, and also what are the good practice features of each modality in the Ugandan context. The decision to include project aid within MTEF ceilings is logical, but will force issues concerning the costs and benefits of project aid to the surface, and pose dilemmas for GOU stakeholders as well as donors.
- For donors: an important lesson from Uganda's experience is that boundaries between aid modalities are not as clear-cut as sometimes supposed. There is practical utility in devices like notional earmarking, linked to high levels of transparency and consultation in budget formulation and monitoring. The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies, and aid strategies should seek to ensure that one instrument is not more vulnerable than another to short-term cuts.
- For the GOU and IPs jointly: a need to address the emerging issues of economic growth strategy together with the absorptive capacity for aid, and the appropriate balance between aid modalities in each sector; linked to this should be a rationalisation of budget support instruments. In particular IPs should seek to link their commitments more effectively with the rolling planning framework of the MTEF. They should consider upstream co-financing of different types of budget support – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.
- Building on the valuable articulation between overall and macro dialogue and sector level processes, the GOU and IPs should work towards developing "sector" strategies for PFM, public service reform and local government reform and delegate detailed dialogue on those issues to dedicated forums.

D2.6 More detailed recommendations and their links to the findings of this study are spelt out in the final chapter.

D3. Summary of Conclusions and Recommendations

Introduction

D3.1 In this final chapter we summarise our recommendations and show how they relate to the findings and conclusions of the study. Principal recommendations are listed thematically below; then, in Table D3.1, we show how the recommendations relate to our findings and conclusions.

D3.2 The Inception Report (see IR ¶3.3) noted the importance of distinguishing between:

> *findings* (facts), *conclusions* (interpretation of the facts, drawing on the judgement of the evaluators) and *recommendations* (reasoned advice based on the evaluation findings and conclusions).

The matrix in Table D3.1 below is designed to summarise the recommendations of the Final Country Report in Uganda, and in so doing to demonstrate the links from findings to conclusions to recommendations.

D3.3 The matrix covers sequentially all chapters in Part B and Part C of the report (these are the rows of the matrix). The first column presents for each chapter a brief summary of the findings. Conclusions in the second column are referenced to the relevant paragraphs in the chapter reviewed. Recommendations, in the third column, have been referenced to the summary list of recommendations.

D3.4 The last column indicates who should be responsible for implementation of the recommendations. The timeframe for this to happen is also suggested, with the following key:

- I means for immediate action;
- ST means for action in the short term, that is, roughly, six months to a year;
- MT means for action in the medium term, that is, will take more than a year.

Summary List of Recommendations

Safeguarding long-term stability

R1 The GOU and IPs should try to ensure that the overall relative shift towards PGBS is maintained.

R2 IPs should develop safeguards against a rapid and destabilising withdrawal of PGBS.

R3 IPs should move towards a graduated response mechanism which provides credible incentives for performance and long-term predictability, protected from short-term political cuts.

R4 IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS.

R5 IPs should provide aid information in line with the MTEF and budget cycles and make rolling three-year commitments for GBS and other aid.

R6 The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies; and aid strategies should ensure that one instrument is not disproportionately more vulnerable than another to short-term cuts.

Design of aid and PGBS instruments

R7 The GOU needs to develop a more elaborate aid policy (beyond the order of preference of aid instruments given in the Partnership Principles), instead highlighting the roles, and the good practice design features, of different aid instruments.

R8 A set of operational principles and guidelines for PGBS should be developed, and IPs should adhere to these guidelines.

R9 In this context the balance between instruments in each sector should be reviewed.

R10 Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.

R11 The GOU and IPs should agree a common disbursement schedule for all PGBS (one or two tranches a year) and stick to it.

The focus of dialogue and conditions

R12 Continue to develop sector-style processes for strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, public sector reform, PFM), and in sectors without SWAp processes.

R13 The PRSC dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it.

R14 IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible.

R15 Continue to increase the profile of productive and private sector issues, including the expansion of growth-promoting initiatives.

R16 Continue to shift attention in the dialogue towards service quality and income generation.

Accountability

R17 The GOU and IPs should develop a strategy for building accountability systems to domestic stakeholders which reflect domestic democratic interests yet also satisfy IP demands.

R18 Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.

R19 Take care to ensure that policy processes provide room for the voices of domestic constituents, including Parliament as well as civil society, to be heard in the dialogue.

Capacity development and focus

R20 In the context of "sector" processes in cross-cutting areas such as PFM, decentralisation and public sector reform (see above):

(a) Develop capacity-building strategies for reform in these areas.

(b) Align TA/CB and other institutional support to these strategic plans.

R21 Increase the relative focus on systemic PFM issues at local government level.

R22 At sector level, shift the balance more towards building capacity of service providers, not just continued service expansion.

R23 Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity.

Using PGBS efficiently

R24 MFPED should reinvigorate the budget challenge to promote efficiency.

R25 The definition of pro-poor expenditures should be revisited regularly so they do not stagnate.

R26 Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives

R27 Assess Uganda's long-term absorptive capacity for aid, and investigate the efficiency of GOU sterilisation choices.

R28 Ensure that monitoring covers implementation activities and intermediate results as well as final outcomes.

Donor selectivity

R29 Donors should be sensitive to the role conditions can usefully play, and choose conditions where signals are needed and success is likely.

R30 Donors should improve their capacity to engage fruitfully in the dialogue, e.g. by:

(a) focusing on fewer sectors and issues of engagement;

(b) ensuring more consistency and coherence in policy across sectors;

(c) making more use of delegated cooperation;

(d) maintaining staff in post for longer;

(e) giving staff early training on the details of how Uganda's systems work;

(f) developing greater understanding of the political economy of reforms.

Table D3.1: Summary of Findings, Conclusions and Recommendations

Findings	**Conclusions**	**Recommendations**	**Implementation (who/when)**
EQ1. Relevance of PGBS			
• Overall the many different designs of PGBS have been fairly responsive to the specific conditions of Uganda, and they have adapted to the evolving PRSP and sector priorities. However, the original design was perhaps too optimistic about governance issues and there was a bias towards the social sectors, with productive issues emerging later. • Much of the PGBS dialogue used pre-existing sector and budgetary forums, with the PRSC steering committee being the main addition. Conditionality has been increasingly focused on government policies and plans. Despite being well structured there are gaps where dialogue and conditionality could have helped foster reforms, while the dialogue often gets dominated by issues where progress is unlikely. Meanwhile inaccurate assumptions about the level of government ownership of policies and plans are made by IPs, which are increasingly technocratic, and less political. • The PEAP (whose subsequent iterations became the PRSP) and sector strategies, which were again initiated before the move to PGBS, meant there was a strong framework of poverty reduction objectives to which PGBS could be aligned from the outset. Although the GBS design responded to many of the weaknesses in aid instruments in terms of alignment towards government objectives and harmonisation with government systems, there is still a degree of incoherence and inconsistency in design across donors.	• Governance not explicitly addressed early on and dealt with in a reactive way since (¶B1.19). Conditionality mostly plays a role of exerting managerial pressure on government institutions, helping to maintain the pace of reform, but does not play a political role (¶B1.21). • Although positive in terms of alignment, there is an over-optimistic assumption that all actions in the PEAP are owned, while there is reduced political ownership (¶B1.23). • Well-structured and increasingly realistic dialogue (¶B1.20) is undermined by the limited capacity of donors to engage in it meaningfully (¶B1.24), partly because of inconsistency within donor agencies – e.g. between sector and general staff approaches (¶B1.29). • GBS is well aligned with the GOU's strategies to reduce poverty (¶B1.25). • The early bias towards the social sectors has made it difficult to address productive issues and local delivery issues later on (¶B1.26). • Incoherence in the design means the consequences if conditions are not met are unclear (¶B1.31).	• Understand the role of conditions, and choose conditions where success is likely, or signals needed (*R29*). • Donors improve their capacity to engage in the dialogue (see below – e.g. selectivity, long-term, training) (*R30*). • A set of operational principles and guidelines for PGBS should be developed (*R8*). • Move towards a graduated response mechanism, which provides credible incentives for performance and long-term predictability, protected from political decisions (*R3*).	• GOU + IPs (ST) • IPs (ST) • IPs + GOU (ST) • IPs (MT)

Findings	**Conclusions**	**Recommendations**	**Implementation (who/when)**
EQ2. Harmonisation and alignment • The alignment of PGBS towards GOU objectives and targets set out in the framework of the PEAP and sector strategies has been strong, and given the large relative and absolute increases in PGBS this has had a strong effect of alignment of IPs towards GOU objectives. PRSC and sector conditions are not always directly drawn from government policies, although the GOU is always involved in their selection. • MFPED played a strong role in aid coordination early on, and the GOU and donors have increasingly used joint analytical work, although there has been limited improvement in the management of TA and CB support. • Alignment of PGBS with the budget cycle is not strong, as commitments are not aligned with the GOU's medium-term and long-term planning horizon, and in-year disbursements vary across donors. PGBS has, automatically, contributed strongly to the increased use of government implementation systems, although recent increases in project support are threatening to undermine this.	• A relative and absolute shift to PGBS has contributed significantly to increased alignment of ODA to GOU objectives (¶B2.4) and use of GOU systems for implementation (¶B2.9). • PGBS has made little change to the delivery of TA and CB although some is linked via the dialogue (¶ B2.12). • PGBS is fragmented and not fully harmonised (¶B2.11). A lack of common operational principles of budget support has undermined alignment with the government budget process, and harmonisation across instruments.	• The GOU and IPs should try to ensure that the relative shift towards PGBS is maintained (*R1*). • IPs should provide aid information in line with MTEF/budget cycle and make rolling three-year commitments for GBS and other aid (*R5*). • Flesh out aid policy to highlight role of instruments, not just order of preference (*R7*).	• GOU + IPs (ST) • IPs (ST–MT) • GOU (ST–MT)

Findings	**Conclusions**	**Recommendations**	**Implementation (who/when)**
EQ3. Public expenditures • PGBS funding has contributed 31% of the real increase in public expenditures between 1997/98 and 2003/04, when pro-poor expenditures increased from 19% to 36% of the budget. PGBS has been effective in increasing the discretionary funding on-budget, even when a substantial proportion has been notionally earmarked under the Poverty Action Fund, as GOU was able to influence where that funding was earmarked to.	• By providing external resources on budget (¶B3.13), PGBS has had a strong effect on the level of pro-poor expenditures (¶B3.10) and the share, where notional earmarking via the Poverty Action Fund added momentum.	• MFPED should reinvigorate the budget challenge to promote efficiency (*R24*). The definition of pro-poor expenditures should be revisited regularly so they do not stagnate *(R25).*	• GOU (MT)
• PGBS has provided a long-term predictable source of budget financing, while short-term unpredictability (which has recently improved) has been buffered by MFPED through the increased stock of reserves.	• PGBS has been a long-term predictable source of budgetary resources, and has been increasingly predictable over the short term as well (¶B3.20).	• Agree a common disbursement schedule for all PGBS (one or two tranches a year), and stick to it (*R11)*.	• IPs + GOU (ST)
• PGBS has contributed to both allocative efficiency, through the shift to pro-poor expenditures under the Poverty Action Fund, and operational efficiency, as an increased share of sector budgets is being channelled to service providers and there has been a relative decline in public administration expenditure, although the rapid increases in public expenditure may have weakened the incentives to improve efficiency. The definition of pro-poor expenditures in the Poverty Action Fund is narrow, and inflexible, which may undermine effectiveness. There is also evidence that transaction costs for administering PGBS are relatively lower than for project support.	• PGBS has had a moderate effect on allocative and operational efficiency (¶B3.22) and in the reduction of transaction costs (¶B3.24).		

Findings	Conclusions	Recommendations	Implementation (who/when)
EQ4. Planning and budgeting systems • A strong, MFPED-led, budget process pre-dated the move to GBS; however, the additional on-budget resources provided by GBS meant that domestic stakeholders, including Parliament, take sector strategic planning and budget processes even more seriously, as they were seen as a route to increasing sector funding. • The influence of PGBS on accountability has been mixed. In some areas there are signs of increased accountability through sector review processes and greater involvement of Parliament in the budget process. However, donors often dominate the dialogue at the expense of domestic stakeholders, and get distracted by issues where progress is unlikely. • So long as strong leadership remains in MFPED, these improvements are likely to be sustained, although there is evidence that a combination of Poverty Action Fund rigidities, an increasingly routine budget process and perceptibly weaker budget challenge may undermine the future efficiency of public expenditure. • TA/CB linked to PGBS has helped improve PFM systems but effectiveness has been limited, as it has not been strategic, or sufficiently linked to a coherent reform programme. Most focus has been on central government PFM and not on local governments, where expansion on basic services has taken place.	• A relative and absolute shift to PGBS has increased the attention spending institutions and Parliament pay to the budget support process (¶B4.7). • Improvements in accountability are often inadvertently undermined by IP actions (¶B4.12). • TA/CB inputs linked to PGBS have supported PFM improvements but they have not been systematic or strategic, and the quality of the dialogue has been poor (¶B4.16). • Complementarity of PGBS inputs has not been maximised, as the relative focus of PFM reform has been at the centre, despite the large increases of funding to local governments (¶B4.18).	• Maintain the relative change in the mix of aid instruments (*R1*). • Develop a strategy for building accountability systems to domestic stakeholders, which also satisfies IP demands (*R17*). • Develop a strategy (not project proposal) for PFM reform. Align TA/CB to PFM with this plan (*R20*). • Increase the relative focus on systemic PFM issues at LG level (*R21*).	• IPs (ST–MT) • IPs + GOU (MT) • GOU (ST) • GOU + IPs (ST–MT)

<table>
<tr><th>Findings</th><th>Conclusions</th><th>Recommendations</th><th>Implementation (who/when)</th></tr>
<tr>
<td>EQ5. Policies and processes
Uganda has a particularly well developed set of policy processes at the sector level many of which pre-dated PGBS, and increasingly so in crosscutting areas of reform such as decentralisation and PFM. However the political ownership of these processes has weakened.
PGBS and non-PGBS IPs are participants in policy making at the sector and cross sector levels. At first there was a strong coincidence of interests between the President, MFPED and the IPs, but this coalition is increasingly fragile. Where the quality of dialogue is good, this has played a positive role in policy processes. Donor influence was partly responsible for the involvement of a wider range of stakeholders, including civil society, in policy processes; although some question its meaningfulness.
Processes are often adaptive to circumstances and constraints, including political decisions such as free healthcare. While cross-cutting processes are less well developed, the policy dialogue and conditionality helped protect some of the ongoing reform processes in PFM and decentralisation from opponents, and maintain the pace of reform.
Sector policies and public expenditures are particularly explicitly linked in Uganda, and the Long Term Expenditure Framework has added a long-term perspective. However, policies have often been public-sector-dominated and neglected the role of the private sector, although these issues are increasingly prominent.</td>
<td>The success of policy reforms has relied on a coalition of interest between the presidency, MFPED and IPs, which is now weakening (¶B5.5).
Sector policy processes in Uganda are particularly well developed, as are the processes of dialogue supporting it (¶B5.5).
PGBS has fostered greater participation in policy dialogue, although those participating often do not feel they have voice (¶B5.5).
The policy agenda has been dominated by the public sector although productive and private sector issues are increasingly being taken up (¶B5.12).
On balance dialogue and conditions relating to PGBS have a positive role in refining policy content and providing impetus for reforms. (¶B5.12, ¶B5.13).
There is a particularly strong link between policies and public expenditures, especially in those sectors with SWAps (¶B5.13).</td>
<td>Continue to develop sector-style processes of strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, PFM), and in sectors without SWAp processes (R12).
Greater understanding of the political economy of reforms should be developed (R30).
Try to ensure policy processes provide room for domestic constituents in the dialogue (R19).
Continue emphasis on dialogue about private and productive sector issues (R15).</td>
<td>IPs (MT)
IPs (ST–MT)
IPs + GOU (MT)
IPs + GOU (MT)</td>
</tr>
</table>

Findings	Conclusions	Recommendations	Implementation (who/when)
EQ6. Macroeconomic performance • The foundations for Uganda's strong macroeconomic performance had been laid before the new GBS, and BOP support was crucial to this. PGBS has facilitated the maintenance of fiscal discipline through providing a long-term source of foreign exchange; a dialogue on macroeconomic issues with the IMF continues and PGBS disbursements are usually tied to Uganda remaining on track with the IMF. • Increases in aid, and PGBS insofar as it has facilitated a rapid expansion in aid, have contributed to an increase in the costs of budget financing, as the GOU has chosen a sterilisation strategy which favours issuing domestic debt relative to selling foreign exchange. This strategy has been chosen because of concerns over the effect of high aid flows on export growth. • Higher interest rates as a result of this strategy are likely to have a detrimental effect on the private sector. Overall, however, both private sector investment and export growth (in terms of volume at least) have been buoyant, indicating that aid-fuelled increases in public expenditure have not excessively crowded out private sector growth. • Although domestic revenues are low, they have been growing as a proportion of GDP and there is no evidence to suggest that PGBS is having a negative effect. • There is strong commitment politically and within MFPED and BOU to the maintenance of fiscal discipline and macroeconomic stability, which PGBS has supported, but not caused.	• Macroeconomic stability preceded PGBS, but PGBS has facilitated the maintenance of fiscal discipline through provision of long-term finance (¶B6.17), although a rapid withdrawal of PGBS would, however have a destabilising effect on the situation. • Aid and PGBS have contributed to an increase in the cost of budget finance due to GOU's chosen sterilisation strategy (¶B6.20). • There is little evidence to suggest that PGBS-fuelled increases in public expenditure have significantly crowded out private sector growth, or undermined domestic revenue collection (¶B6.22 and ¶B6.24). • Strong political and institutional commitment to macroeconomic stability, which was present prior to PGBS, has been reinforced by PGBS (¶B6.26).	• Donors provide safeguards against a rapid withdrawal of GBS (*R2*). • Assess long-term absorptive capacity of aid, and investigate the efficiency of GOU sterilisation choices (*R27*).	• IPs (ST) • IPs + GOU (ST)

Findings	**Conclusions**	**Recommendations**	**Implementation (who/when)**
EQ7. Delivery of public services			
• PGBS funding has accelerated increases in the quantity of basic services delivered by local governments from which the poor have undoubtedly benefited, although the targeting of those services is not always pro-poor. The quality of services in health and education is very weak, and has yet to recover from the abolition of user charges. • Through its flexibility, PGBS has also allowed more efficient and effective resource allocation for service delivery. This manifests itself in the extent to which the GOU has been able to expand expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending. • The PAF facilitated this, and the notional earmarking of PGBS to PAF and sectors helped accelerate the change. Decentralisation has been a key reform and through facilitating increased transfers to local governments PGBS funds have helped to strengthen new institutional relationships in service delivery and building institutional capacity in local governments. However, conditional grants have given LGs limited autonomy, which has undermined the responsiveness of those services. • There has been limited focus on local accountability issues, and strengthening service delivery institutions, beyond increasing the inputs available to them. This in part is due to the fact that TA/CB have been weakly oriented towards these areas.	• PGBS has facilitated a huge expansion in basic service delivery by local governments, and the poor have benefited from that expansion, but the quality of services is very weak (¶B7.13). • Local governments have been empowered by increases in funding, but PGBS funding has been biased towards increasing the supply of inputs, while TA/CB have not been focused on building responsive and sustainable provider institutions (¶B7.20).	• There needs to be a drive to ensure quality of existing services, and focus on building the capacity of service delivery institutions, not only continued service expansion (*R16*). • TA/CB need to be oriented towards building capacity of service providers (*R22*). • Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity (*R23*).	• GOU (ST–MT) • IPs + GOU (ST–MT) • IPs + GOU (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
EQ8. Poverty reduction • PGBS has made a major and efficient financial contribution to the expansion of service delivery that the poor have been able to access, although weak quality is undermining the benefit accrued from those services. • PGBS funds have supported a generally positive macroeconomic environment which has supported income growth; beyond this, PGBS influence is limited. Non-financial inputs have fostered policy review, which has highlighted the need to pay more specific attention to service quality and income poverty in future. • PGBS has supported decentralisation which is intended to encourage participative decision making; however, the impact on empowerment of the poor is not conclusive. There have not been significant improvements in the administration of justice or human rights, and conflict in the north of Uganda has received limited attention. • The early domination of the social-service-driven agenda has limited the room for financing public sector action which promotes income generation and growth.	• The major contribution of PGBS to poverty reduction has been through the expansion of basic services (¶B8.8). • The effects of PGBS on income poverty have been far weaker, and indirect, through facilitating macroeconomic stability which in turn fosters growth (¶B8.9). • There is little discernible effect of PGBS on empowerment and the administration of justice (¶B8.11).	• Continue to shift attention in the dialogue towards service quality and income generation (*R16*).	• IPs + GOU (ST–MT)

Findings	**Conclusions**	**Recommendations**	**Implementation (who/when)**
EQ9. *Sustainability* • The scope for involvement of IPs in policy processes and the nature of those processes at the sector and cross-sector levels provide substantial scope for shared learning; however, short institutional memory on the side of IPs undermines this somewhat. • In Uganda there are mechanisms for monitoring the three main flows of GBS; however, there is an imbalance in monitoring the intermediate levels in the results chain. Expenditure-level and outcome-level monitoring are improving, but routine data collection on the direct results of public sector action is limited, and this limits the scope for evidence-based decision making. • Systems for providing feedback through sector review mechanisms and the PRSC steering committee are well established. However, the apparent reduction in political involvement in these processes does not augur well for sustainability. In addition concerns about political transition and corruption make it harder for IPs to justify aid, and PGBS because of its un-earmarked nature, to domestic constituents.	• Dialogue allows plenty of scope for shared learning, but IP institutional memory is short. (¶B9.8). • Inadequate monitoring of intermediate results means the information available for policy making is unbalanced (¶B9.11). • Adequate forums now exist to provide stakeholders with feedback (¶B9.14). • Weakening political ownership, combined with concerns of political transition and corruption, is making it increasingly difficult for IPs to justify GBS to domestic constituents (¶ B9.14).	• Reduce the turnover of donor staff, and train them on GOU systems (*R30*). • Ensure routine information on intermediate results integrated into decision making (*R28*). • IPs need to develop a greater understanding of the political economy of reforms being sponsored in the dialogue (*R30*). • The objectives and uses of PGBS must be clearly signalled alongside other instruments to retain political support of home constituencies. Aid strategies should ensure that one instrument is not more vulnerable than another to short-term cuts (*R6*).	• IPs (ST) • GOU (ST–MT) • IPs (ST) • IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
PART C *C1. Policy CCIs* • Gender issues are addressed and mainstreamed more systematically in Uganda than in many countries and existing government structures have been used rather than parallel structures. The PEAP dialogue has embraced dialogue on gender, and there is a donor group which deals with gender issues, and engages on these matters. • Uganda was one of the first countries, with a strong political lead, where HIV/AIDS prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP, and there is controversy over the extent to which global funds can be accepted, given the government's macroeconomic ceiling. • Environment issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001. PRSCs have included actions relating to strengthening environmental institutions, however they remain weak and are lent limited budget priority. The PRSC has been used more to support environmental policy than for explicit gender or HIV/AIDS initiatives. For HIV/AIDS and environment there are strong elements of project support.	• The structure of dialogue which has been reinforced by PGBS provides valuable opportunities to mainstream CCIs in sector and budget discussions (¶C1.13). • Political will tends to be the overriding factor as to whether a crosscutting issue is actually addressed (¶C1.13). • There are important interactions between different modalities in addressing CCIs (¶C1.13, ¶C4.9).	• The PRS dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it. (*R13*). • More explicit attention is needed, generally and at sector level, to devising an appropriate balance between aid modalities (*R9*). Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector (*R10*).	• GOU + IPs (MT) • GOU + IPs (ST–MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
C2. Public and private sector issues			
• There was an early bias in PGBS towards social sector service delivery in terms of dialogue and funding. The PAF and SWAps combined with notional earmarked budget support contributed to the skewing of budget allocations towards the social sectors. • Dialogue relating to the productive sector now has a higher profile, but the expansion of initiatives such as the Agricultural Advisory Services is constrained by the decision to limit the growth of public expenditures, due to concerns of crowding out the private sector.	• PGBS initially had a public sector bias, only recently giving emphasis to the productive sectors (¶C2.2 and ¶C2.4). • It has subsequently proved difficult to expand public sector programmes which are oriented towards agriculture and the private sector. (¶C2.11)	• Continue to increase the profile of productive and private sector issues (*R15)*. • Review the definition of pro-poor expenditures eligible for the PAF (*R25*). • Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives (*R26)*.	• GOU + IPs (MT) • GOU + IPs (MT) • GOU + IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
C3. Government capacity and capacity building • PGBS has supported improving capacity, mainly through the empowering effects of the flow of funds, and strengthening policy and budgeting systems. TA and CB have been the least well specified inputs of PGBS, and have been uncoordinated and fragmented. • Capacity building with respect to PFM is central to PGBS, yet support has been weakly coordinated, although there are signs of improving collaboration among donors. • Given their responsibility for basic services, local government capacity is also important. Again the flow of PGBS funds has contributed most. Innovative approaches to CB include linking funding to capacity assessments, and the recent introduction of standardised training curriculums. However, the effect on service delivery remains indirect. Meanwhile approaches to TA/CB support to local services within sectors is varied, with some sectors strengthening local government systems, and others bypassing them. • There has been limited progress in other important capacity-related issues, such as pay reform, despite priority in the PRSC dialogue, due to lower bureaucratic and political support.	• Capacity development has not been very systematically addressed by PGBS (¶C3.1). • The flow of PGBS funds has had the greatest impact in capacitating government (¶C3.3 and ¶C3.4). • Capacity support for PFM has been weakly coordinated in the PGBS era, although there are recent signs of greater collaboration (¶C3.3). • Innovative approaches to LG CB, married with the flow of PGBS funds, have had some success, although service providers remain weak (¶C3.6). • Despite prominence in the PRSC, there has been inadequate backing and progress in pay reform (¶C3.11).	• The GOU develops improved strategies for institutional CB for PFM, local governments, and service delivery. Donors align TA/CB to this (*R20*).	• GOU (ST–MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
C4. Quality of partnership			
• On balance, Uganda supports the contention that PGBS conditionality is qualitatively different from earlier structural adjustment approaches. Agreed conditions serve as information signals to constituents, and provide impetus to technical reforms, they do not simply "buy reform" or "make things happen". The quality of dialogue and appropriateness of conditions are undermined by the weak capacity of IPs to engage in the dialogue, exacerbated by the high turnover of donor staff.	• There is evidence of a qualitative shift in conditionality, but its appropriate role is not always understood (¶C4.5). • IPs often do not have the capacity to engage in meaningful dialogue (¶C4.6).	• IPs ensure low turnover of staff, who should be trained on GOU systems before they start work (*R30*). • IPs should develop capacity to understand political aspects of reform (*R30*).	• IPs (MT) • IPs (MT)
• As GBS is disbursed using government systems, it costs less to administer, and joint PRSC and sector dialogues reduce duplication, although they can be unwieldy. However, increases in project support mean that transaction costs, in aggregate, may not be falling.	• A relative shift to budget support did reduce transaction costs, but recent increases in project support are undermining this (¶C4.7).	• IPs should focus on fewer sectors and use more delegated cooperation (*R30*).	• IPs (MT)
• The interplay of aid modalities is a key issue in Uganda. There is significant complementarity between modalities, and all donors use some mix of instruments. The scale of the shift to PGBS was, however, crucial in its success, while the persistence of parallel projects undermines the efficiency of PGBS. Different sectors have widely differing mixes of project and on-budget financing; however, there is no systematic policy on the role of different instruments.	• The interplay of PGBS with other instruments shows significant complementarities, but parallel project funding also reduces the efficiency of PGBS (¶C4.10). The significance of this varies between sectors, which face different configurations of GOU and IP interests. • The recent decision to integrate projects within budget ceilings will present a challenge in this respect to both GOU and IP stakeholders in each sector (¶C4.13, ¶C4.14).	• An explicit policy on the role of different instruments should be developed, and the balance between instruments in each sector should be reviewed (*R7*, *R9*). • Ensure that one instrument is not more vulnerable than another to short-term cuts (*R6*).	• GOU (ST) IPs (MT)

Findings	**Conclusions**	**Recommendations**	**Implementation (who/when)**
C5. Political governance and corruption • "Governance" covers a spectrum of political and technical issues which have become increasingly important in the relationship between GOU and IPs over recent years. • Many aspects of governance, including human rights, are addressed in the PEAPs, but political ownership of the PEAPs has been diminishing. Efforts by bilateral donors to raise governance concerns through a "governance matrix" have had limited success. At the same time, the potential for political crises to undermine the relationship seems to be increasing. • Corruption is especially corrosive of IP support for PGBS, but there has been more success in strengthening basic PFM systems and increasing transparency than in high-profile anti-corruption legislation. • Many of the reforms and capacity improvements supported by PGBS are equally relevant to the accountability requirements of domestic stakeholders as well as IPs.	• Performance against governance criteria is difficult to measure objectively, but there has been a growing gap between GOU performance and IP expectations (some of which were based on an initial misreading of Ugandan politics) (¶C5.6–C5.7¶). • PGBS offers opportunities for engagement with GOU on a range of governance issues, but it cannot buy governance reforms that threaten key political interests (¶C5.11). • It should not be assumed that PGBS is automatically more vulnerable to corruption than other forms of aid. Safeguards in delivery of PGBS are important, but it also offers opportunities to strengthen GOU fiduciary systems (¶C5.15). • There is need for realism about the scope and pace of reforms that can be achieved through essentially technocratic means (¶C5.16).	• IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible (*R14*). • IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS (*R4*). • Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns (*R18*).	• IPs (MT) • IPs (MT) • IPs (MT)

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JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Uganda Country Report

ANNEXES

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Joint Evaluation of General Budget Support

UGANDA COUNTRY REPORT ANNEXES

Figures

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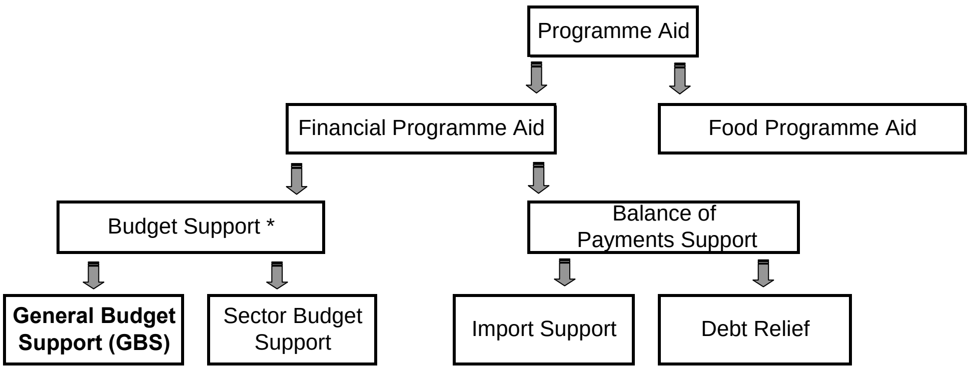
ANNEX 1: APPROACH AND METHODS

Annex 1A: Summary of the Evaluation Methodology

1. This Annex provides a short summary of the evaluation methodology. For full details please refer to the Inception Report (see also the Note on Approach and Methods which accompanies the Synthesis Report). Box 1A.1 shows how GBS relates to other forms of programme aid, while Box 1A.2 defines the DAC (Development Assistance Committee) evaluation criteria. Figure 1A.1 provides an overview of the Enhanced Evaluation Framework (EEF).

Box 1A.1: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support (SBS) and General Budget Support (GBS).



* Referred to as direct budget support in the *Evaluation Framework*

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

Sector Budget Support is distinguished from **General Budget Support** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

Source: IDD & Associates 2005: Box 2.1.

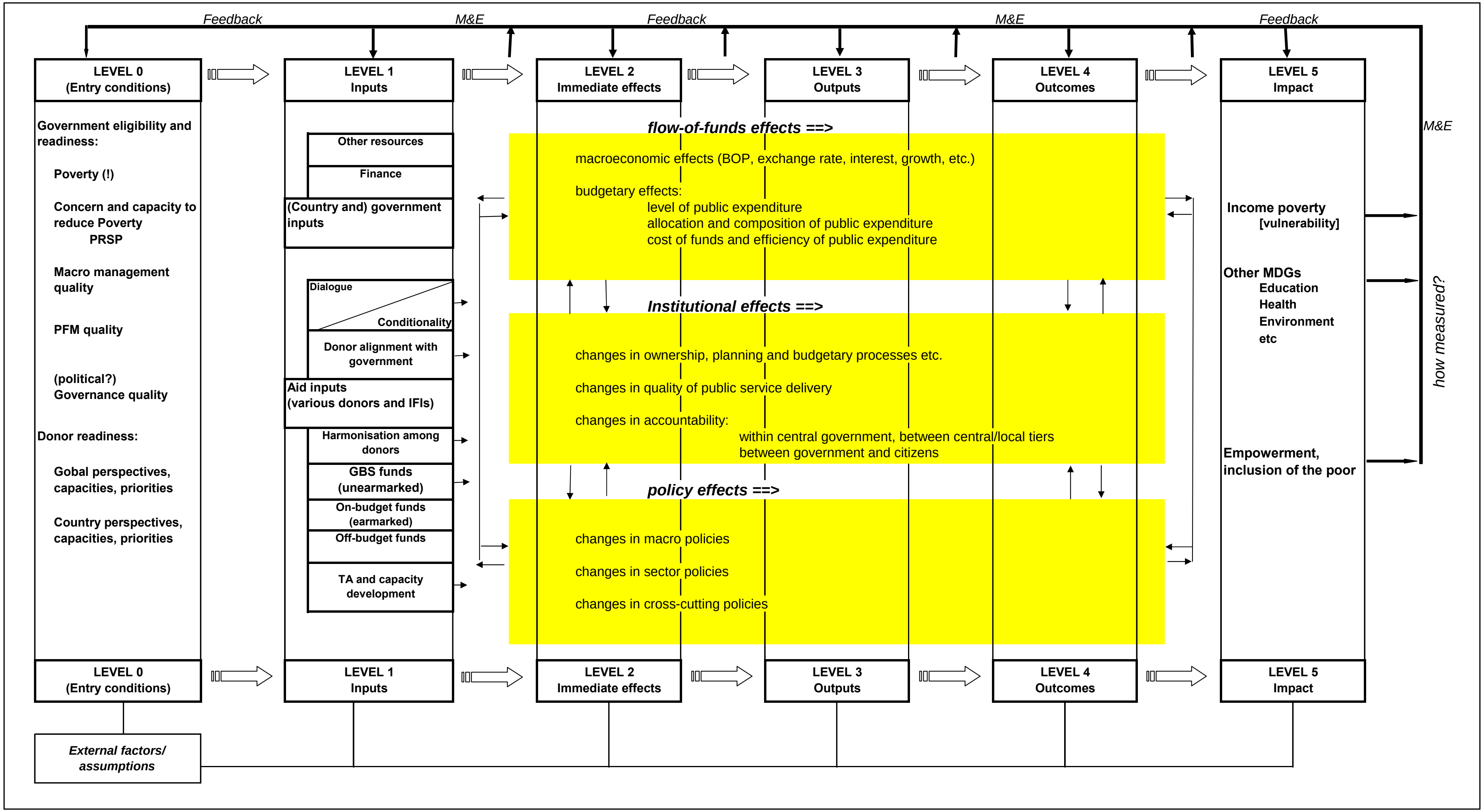
Box 1A.2: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- *Effectiveness*: The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- *Efficiency*: A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
- *Relevance*: The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- *Impact*: Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- *Sustainability*: The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD & Associates 2005: Box 3.1.

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)



2. Box 1A.3 shows, for each level of the logical framework, the main effects that are hypothesised to result from GBS. These hypothesised effects form the first column (the "logical sequence") of the detailed evaluation questions which are annexed to the Inception Report.[1]

Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects

Level 1 (the design)

1. Adequate quantity and quality of inputs are provided by new GBS:

1.1 Funds
1.2 Policy dialogue
1.3 Conditionality
1.4 TA/capacity building linked to
- Public finance management (PFM)
- Pro-poor sectoral policies and good governance

1.5 Alignment and harmonisation
- International Partners' (IP's) alignment to government goals and system
- IPs' harmonisation

Level 2 (the immediate effects/activities)

2.1 More external resources for the government budget (additionality)
2.2 Proportion of external funds subject to national budget process increased (increased fungibility)
2.3 Increase in predictability of external funding of national budget
2.4 Policy dialogue and conditionalities focused on pro-poor policy framework and improved PFM
2.5 TA/capacity building established to:
- improve PFM processes including budgeting, accounting, financial control, audit
- improve the linkage between PFM and pro-poor sectoral policies and good governance

2.6 Actions to ensure IPs' alignment are in place
Actions and agreements to improve IPs' harmonisation are in place

Level 3 (the outputs)

3.1 Increased resources for service delivery:
- External resources are treated as additional
- Cost of funding budget deficit reduced

3.2 Partner government is encouraged and empowered to strengthen PFM and government systems:
- To use the budget to bring public sector programmes into line with government goals, systems and cycles (Poverty Reduction Strategy Paper/Medium Term Expenditure Framework)
- To set up performance monitoring systems to measure the effectiveness of public expenditure at the level of the final beneficiaries
- To promote alignment and harmonisation by IPs

3.3 Partner government is encouraged and empowered to strengthen pro-poor policies:
- To establish and execute an adequate sequence of reforms to ensure macroeconomic stability and private sector development
- To establish and execute pro-poor policies and targeting in health, education, agricultural and rural development
- To enhance social inclusion policies, through decentralisation and participation of the civil society, reform of the administration of justice and respect for human rights

3.4 Improved aggregate fiscal discipline:
- More predictable funding flows
- Incidence of liquidity shortfalls reduced, hence less use of Central Bank overdrafts and less accumulation of arrears

3.5 Operational efficiency of public expenditure is enhanced:
- By reductions in certain types of transaction costs to partner government (e.g., non-standard procurement systems, brain-drain effects of parallel project management structures)
- Better planning, execution and oversight reduces wasteful spending, controls corruption better, spreads positive lessons across the public sector

[1] See IDD & Associates 2005 Annex G for the full set of detailed evaluation questions.

3.6 Allocative efficiency of public expenditure is enhanced:
- By a more effective budget process: multi-year, results oriented, transparent, participatory; with effective execution and audit; with an adequate tracking system
- By increased capture of project funds in budget
- By stakeholders taking the domestic budget more seriously (because that's where the money is)

3.7 Intra-government incentives and capacities are strengthened:
- Official reporting lines are more respected (vertical through government to cabinet, not horizontal to IPs)
- Public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced

3.8 Democratic accountability is enhanced:
- Greater role of parliament in monitoring budget results
- Accountability through domestic institutions for IP-financed spending is enhanced
- Conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their level of expectations

Level 4 (the outcomes)

4.1 Macroeconomic environment is favourable to private investment and growth:
- Inflation controlled
- Realistic exchange rate attained
- Fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment

4.2 Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability:
- Policies on corruption, property rights resolutely pursued
- Market-friendly institutions developed

4.3 More resources flowing to service delivery agencies

4.4 Appropriate sector policies include public actions to address major market failures, including those arising from gender inequalities

4.5 More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government

4.6 More conducive growth enhancing environment

4.7 Public services effectively delivered and pro-poor:
- Service delivery targets met for key pro-poor services
- Evidence of increased use of services by poor (including poor women)

Level 5 (the impact)

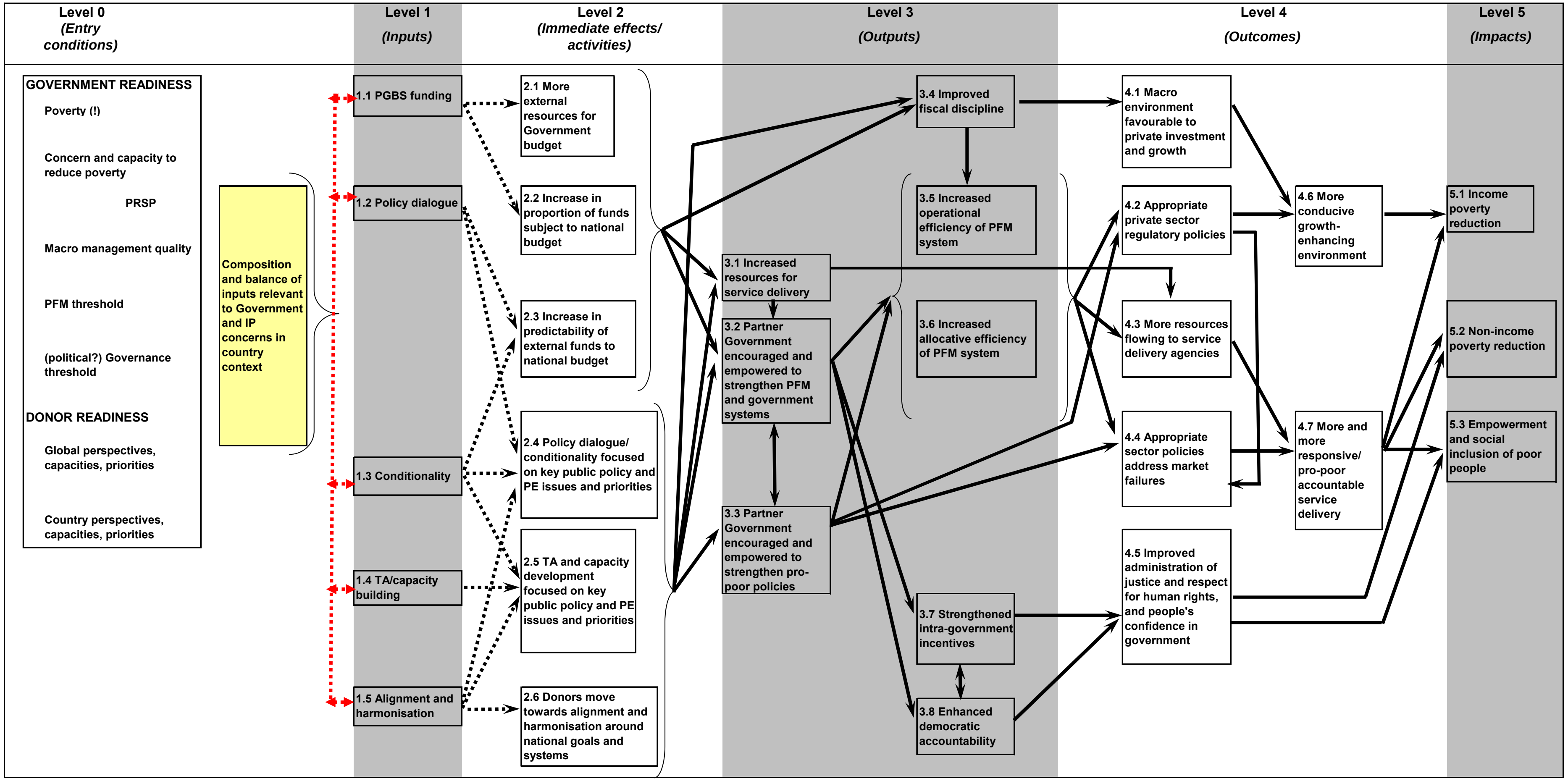
5.1 Income poverty reduction

5.2 Non-income poverty reduction

5.3 Empowerment and social inclusion of poor people

3. The main hypothesised links between inputs and subsequent effects at different levels are depicted on the causality map (Figure 1A.2). Note that these are not the only possible links; the evaluation teams also considered whether other links appeared important in particular countries.

Figure 1A.2: Causality Map for the Enhanced Evaluation Framework



4. A set of over-arching key Evaluation Questions (Box 1A.4) provides an organising framework for the country evaluation and a structure for the country reports.[2]

Box 1A.4: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

5. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed (the shaded boxes within each of the chapters in Part B of the main report). To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had. The key to the ratings and symbols is as follows:

(a) Where the logic of the (implicit) question requires it – i.e. in Chapters B2–B8[3] – the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.

(b) PGBS influence is expressed in two ratings:

- For *effect*. This assesses the difference that PGBS makes to the general situation.
- For *efficiency*: It is perfectly possible that PGBS will be found to have a weak or null effect not because PGBS is inherently ineffective, but because it is relatively small ("a drop in a bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value for money" way of pursuing this effect?)

(c) For both the general situation and the PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings:

***	*strong/high*
**	*medium/moderate*

[2] See IR Annex K for the full matrix of key Evaluation Questions, including judgement criteria, evidence, data sources, counterfactuals. The final *Note on Approach and Methods* will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

[3] The Evaluation Criteria in Chapters B1 and B9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

*	*low/weak*
null	*the level/effect is either zero or negligible*
nf [not found]	*we found no evidence either way*
na	*rating is Not Applicable to this question*

(e) The "trend" is the trend at the end of the evaluation period, and the options are:

+	*increasing/improving*
=	*stable (or no discernible trend)*
–	*declining/worsening*
na	***not applicable** if the accompanying level is rated null / not found / not applicable*

(f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and is always be highlighted in the text explanation).

(g) As a rough guide to confidence ratings:

***	strong/high confidence:
	We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).
**	medium/moderate confidence
	There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.
*	low/weak confidence:
	There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.

(h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.

(i) As a rough guide to ratings for effect

***	strong effect:
	PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.
**	moderate effect:
	PGBS has made a definite and moderately significant difference to the general situation; but it may be a subsidiary factor, or one among a considerable number of significant factors.
*	low/weak effect:
	PGBS has made only a small difference to the general situation.
null	*PGBS is assessed to have made no difference, or only a negligible difference, to the general situation.*
nf [not found]	*We did not find evidence either way of a PGBS effect.*
na	*The implied question is Not Applicable in this case.*

(j) As a rough guide to ratings for efficiency:

***	highly efficient *PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.*
**	moderately efficient *PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.*
*	low efficiency *PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.*
null	*PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.*
not found	*We did not find evidence either way of a PGBS influence.*
na	*The implied question is Not Applicable in this case.*

6. The evidence used to assess ratings is explained in the text, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies. At the same time, the study team recognises their limitations. It is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements, the ratings are only an adjunct to the text.

Annex 1B: Note on Approach and Methods adopted in Uganda

Introduction

1. This annex describes and comments on the approach and methods for the study in Uganda. It complements Chapter A1 which outlines the conceptual framework for the study as a whole.

Team and Timetable

2. The study involved two visits to Uganda, an inception visit in November/December 2004 and the main study phase in July 2005.

3. The team included Stephen Lister (team leader), Tim Williamson, Wilson Baryabanoha, Philip Amis (first visit only), Jesper Steffensen (second visit, working on decentralisation). The team all had substantial experience of working in Uganda.

4. The study had key counterparts on both the Government and donor side. Ishmael Magona from Ministry of Finance, Planning and Economic Development (MFPED) and subsequently his successor as Commissioner of Budget Policy and Evaluation Department, Kenneth Mugambe. On the donor side the main focal points, members of the economists' group, were Justina Stroh from Development Cooperation Ireland and Hege Gulli from the Royal Norwegian Embassy. The link with the study's Management Group was Nele de Graeuwe (Belgian Technical Cooperation), who joined the second visit.

5. Two workshops were held, towards the end of each visit, attended mainly by government and donor officials. The first, in December 2004, introduced the evaluation objectives, the original methodology, and initial lines of investigation. The second, in July 2005, presented initial findings of the evaluation.

6. In Uganda an inception note was prepared in December 2004. A first draft of the main report and annexes was finished in October 2005. Substantial comments were received from donors early the next month. Discussions on the draft were held with MFPED officials, although no formal comments were received from the GOU. The report was finalised in January 2006.

Research Methods

7. Uganda is a particularly well documented country and extensive literature was reviewed, as demonstrated by the bibliography in the main report. This includes poverty diagnostics, PFM assessments, macroeconomic analyses, public expenditure reviews, and reviews of budget support instruments, such as the 2004 PRSC stocktaking study. The majority of financial and economic data came from MFPED sources, although information from other local and international sources was also used.

8. The field visits were focused on stakeholder interviews, and data collection. The majority of interviews were held with government institutions and donor representatives. All key crosscutting ministries were visited, but, rather than attempt to visit all sector ministries, the team decided to focus on the agriculture and education sectors, although discussions were also held with stakeholders in the health sector. The in-country workshops were important for testing

hypotheses and initial findings. Inevitably, it was difficult to cover issues in depth in a single day, given the broad scope of the evaluation.

9. During the inception phase, a questionnaire was circulated to donor partners asking for key details about the GBS inputs they were providing. However, only a minority of questionnaires were completed by IPs. Whilst the information was used where possible, the gaps in the data meant that the information was not as useful as if all IPs had responded. There were complaints among IPs on the detail required in the questionnaire, which is likely to have led to the low completion rate. Instead data on PGBS inputs was collected from MFPED documentation on aid flows, and verified by donors later on.

10. In addition, special attention was given to decentralisation (see Annex 6). This included visits to two local governments with different experiences of donor support – Mubende and Kibale districts. Although this was not a representative sample, the team also drew on its substantial prior experience of local government over the past decade.

11. The draft report was subject to internal review and quality assurance from within the PGBS study team, and in particular Brian van Arkadie. Substantial feedback from donor staff within Uganda and from the Management Group was particularly useful in finalising the report.

Applying the Evaluation Framework

12. The Enhanced Evaluation Framework (EEF) sets out a very rigorous and systematic set of evaluation questions, which were applicable to the Ugandan situation. The fact that the EEF had not been developed at the time of the inception visit meant that enquiries were less tightly focused than subsequently. Future evaluations will benefit from having the elaborate framework established. (The final product of the evaluation will be a *Note on Approach and Methods* explaining and reflecting on the methodology.)

13. In Uganda, it was important to define the GBS inputs, through the inventory, so that the effects could be traced through from Level 0 up the levels of the EEF. This was a particularly time-consuming task given the large number of PGBS instruments in Uganda. The large number of instruments was in part due to the fact that Uganda has a substantial amount of notional earmarked budget support, which qualified as PGBS in the definitions for the study, adding an extra dimension to the Ugandan evaluation.

14. Even in the Uganda context where there are a lot of primary and secondary information sources, definitive answers to the evaluation questions are not always possible. The rating system (described in Annex 1A) was helpful in allowing the degree of confidence to be indicated. Its distinction between the general level of systems and processes in Uganda and the effects of PGBS was also important, especially since much progress had been made in reform in Uganda prior to PGBS.

15. Of the seven evaluation countries, Uganda has had the longest history of PGBS, and the largest volumes in absolute terms and relative to other aid instruments. This added to the analytical work demanded. Thus, for example, Annex 4A provides an in-depth analysis of the efficiency of public expenditures which underpins our assessment of the effects of PGBS funding flows.

16. The focus on decentralisation in Uganda involved a specific assessment of the effects of PGBS on decentralisation, which is set out as Annex 6. This annex identifies the GBS inputs and answers the 9 key evaluation questions from the perspective of local governments.

Reflections

17. This evaluation has been completed at a difficult time in donor-GOU relations and many may find our positive assessment of PGBS in Uganda at odds with the situation in early 2006. Our assessment is based squarely on the questions in the EEF, which sets out a framework which is far more rigorous than most other methodologies for evaluating aid. This provides the foundation for our conclusion that PGBS has been an efficient and effective use of aid resources over the past decade. Uganda's case highlights important issues about the interactions between aid and politics. These are discussed further in the Synthesis Report of this evaluation.

Table 1B.1: Organisations Visited

Central Government	**Donors**
MFPED (Economic Affairs, Budget, Accounts)	JICA
Ministry of Public Service	AfDB
Auditor General	DFID
Office of the Prime Minister	World Bank
Ministry of Local Government	Royal Netherlands Embassy
Ministry of Health	Royal Norwegian Embassy
Ministry of Education and Sports	Sida
PMA Secretariat	EC
Local Government Finance Commission	IMF
National Planning Authority	DCI
Ministry of Agriculture, Animal Industry and Fisheries	GTZ/German Embassy
Parliamentary Budget Committee	Education Funding Agencies Group
Office of the President	Health Partners
	Agriculture donor group
Other	
The Monitor Newspaper	**Local Governments**
Uganda Debt Network	Mubende District
Economic Policy Research Centre	Kibale District

Table 1B.2: Workshop Participants (second mission)

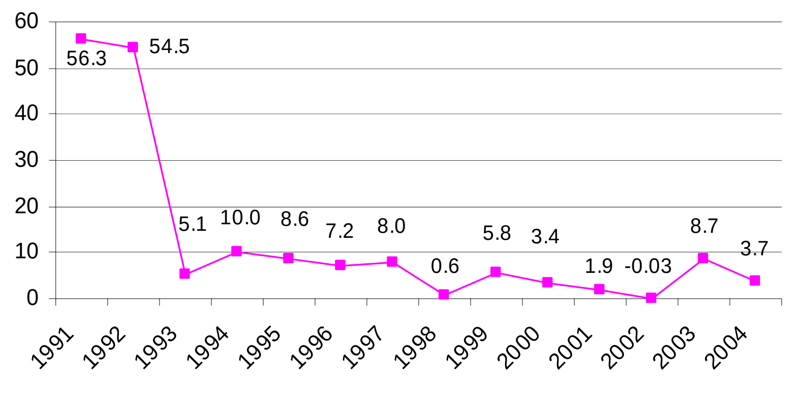
Names	Institution/Position
Nele Degraeuwe	BTC
Pius Biririmana	Ministry of Public Service
Regina M. Ssekandi	Ministry of Finance
Mukaila Ojelade	Afdb, Res. Rep.
Masumi Owa	Japanese Embassy
Sarah Khasalimwa	JICA-SSEMAT
Eng. Richard Cong	DWD/MWLE
Bitarabeho Johnson	C/M LGFC
Noel A. Bisamaza	D. Office of the President
Namwejje Ahdrew	C.A.O Kibaale
Opio Wwalu Charles	MOWHC AC/PA
Bategeka Lawrence	EPRC
Victoria Nambwaayo	EPRC
Francis Wasswa	EPRC
David Mugisha	MFPED
Emil Twinamasiko	NARO
Peter Ngategize	NC. MTCS SEC, MFPED
Passy Washeba	MFPED
John .H. Muyibwa	Auditor General's Office
Paul Mpuga	Economist
Jesper Windt	WB
Peter Ogwal	RDE/Danida
Otim Mark	MAAIF for PS
Monica Kalemba	MOLG
Gerald Twijukye	CDRN
G. Mukwaya	ULGA/MED
Fred Muhamad	EPRC
James Kaweesi	MWLE
Onesmus Mulondo	MOLG
Mbulamuko Laban	MFPED
Gloria Mugambe	Embassy of Sweden
Micheal Wangusa	Oxfam
Catherine Kanabiahita	Royal Netherlands Embassy
L.K. Kiza	MFPED
Abdul Muwanika	OPM
Gregory Smith	MFPED
Justina Khuka Stroh	Embassy of Ireland
Brita Olthmann	KFW
Peter Allum	IMF
G.P. Kasajja	MOWHC
Barry Wojega	USAID
Monica Kalemba	MOLG
George Bagambisa	MOH
Rebecca Kakembo	UPMB

ANNEX 2: COUNTRY BACKGROUND

Introduction

1. This annex provides background information on Uganda and its economic and social performance.

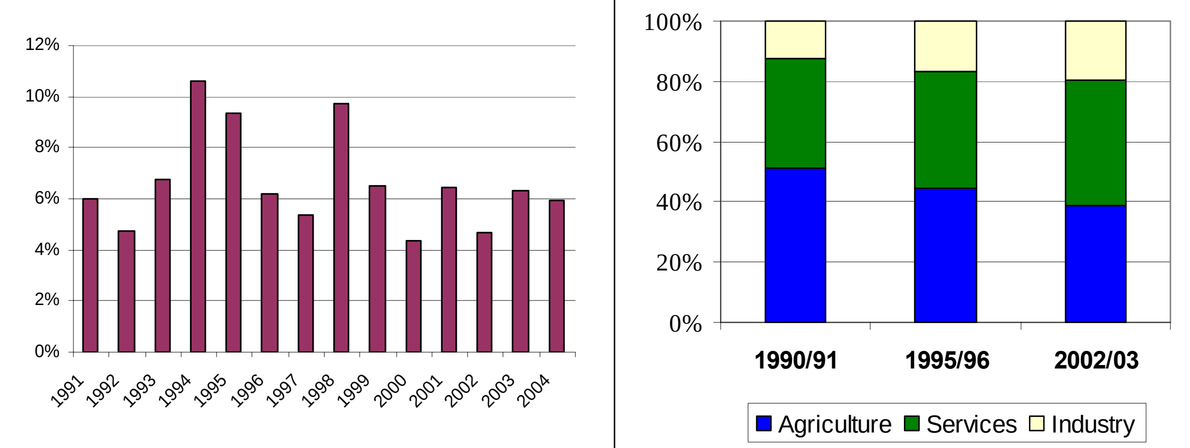
Figure 2.1: Annual headline inflation 1991–2004



Source: UBOS.

Figure 2.2: GDP Growth and Sector Shares 1990/91–2002/03

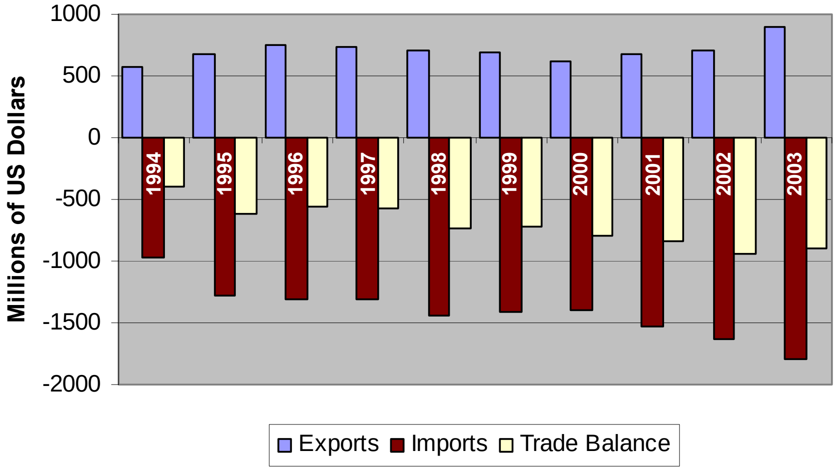
Real GDP Growth 1990/91–2002/03 (market prices) | **Sectoral Shares of GDP 1990/91–2002/03**



Source: Poverty Eradication Action Plan

Source: Poverty Eradication Action Plan

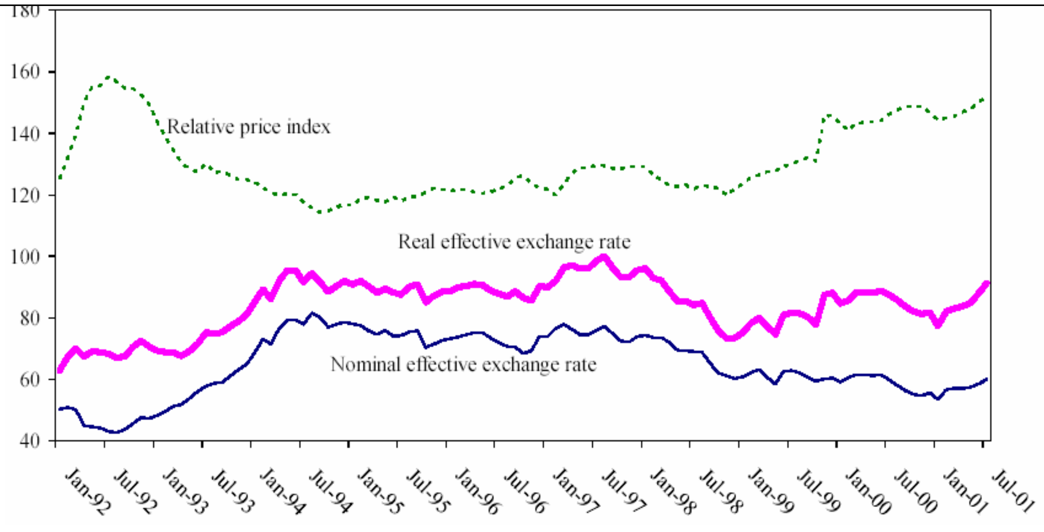
Figure 2.3: Uganda Trade Balance 1994–2003



%GDP	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports	10.7%	10.9%	11.9%	11.0%	11.3%	11.4%	10.6%	11.7%	11.6%	13.8%
Imports	18.3%	20.8%	20.7%	19.7%	22.9%	23.2%	24.2%	26.1%	27.0%	27.7%
Deficit	7.5%	9.9%	8.8%	8.7%	11.7%	11.8%	13.6%	14.4%	15.4%	13.9%

Source: IFS 2004

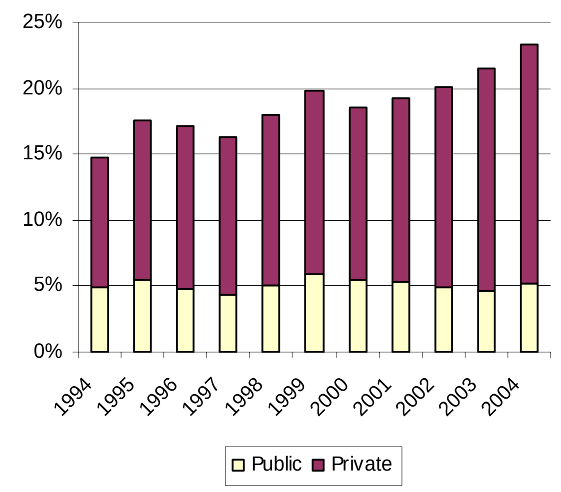
Figure 2.4: Uganda Real Effective Exchange Rates 1992–2002



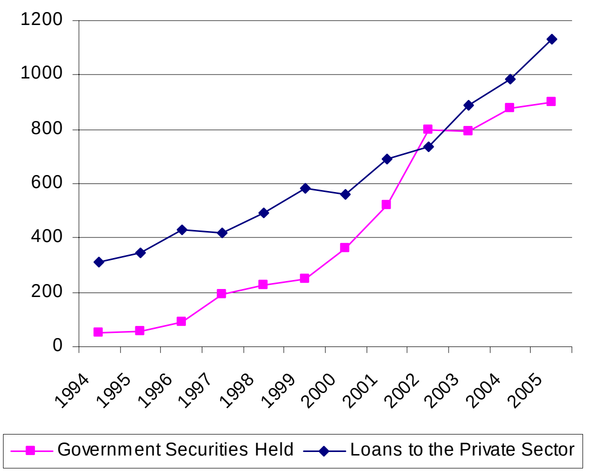
Source: Nkasu 2004

Figure 2.5: Public and Private Investment and Bank Loans

Investment as a % of GDP 1990/91 – 2002/03



Commercial Bank Loans to Private Sector and Government (UGS billion, 2004 prices)



Source: Poverty Eradication Action Plan

Table 2.1: Levels and Coverage of Service Delivery

Primary Education	**2000**	**2001**	**2002**	**2003**	**2004**
Teachers on payroll	82,148	101,818	113,232	121,772	124,137
Number of Classrooms	50,370	60,199	69,900	73,104	78,403
Pupil Teacher Ratio	65	58	56	56	54
Pupil Classroom Ratio	106	98	94	94	85
Net Enrolment Rate	86%	87%	85%	87%	89%
Enrolment Growth rate	-	11%	11%	4%	-2%
Primary Healthcare					
Outpatient Visits per Person	0.40	0.43	0.60	0.72	0.79
% DPT3 Coverage	41%	48%	63%	84%	83%
% Approved Posts Filled	33%	40%	42%	66%	68%
% Deliveries in Health Unit	25%	23%	19%	20%	24%
Safe Water					
Rural Water Coverage	50%	54%	55%	58%	60%
Agriculture Extension					
Households visited by Extension Worker	29%				14%
Rural Roads					
% Households Living < 1 km from a road					85%

Source: Ministry of Education, Ministry of Health, National Service Delivery Survey 2004

Box 2.1: The Constraints to Private Sector Business in Uganda

The business environment in Uganda : % of firms evaluating constraint as "major" or "very severe"

Item	General	Exporter	Non-Exporter
Cost of Financing	60.3	62.5	60.2
Tax rates	48.3	48.9	48.4
Macroeconomic instability	45.4	64.3	41.7
Access to Financing	45.0	37.2	46.6
Electricity	44.5	52.4	42.9
Corruption	38.2	56.4	35.0
Tax administration	36.1	42.9	35.1
Anti-competitive or informal practices	31.1	41.5	29.4
Skills and Education of Available Workers	30.8	36.6	30.0
Regulatory Policy Uncertainty	27.6	42.9	24.6
Customs and Trade Regulations	27.4	33.3	26.3
Crime, theft and disorder	26.8	36.4	25.3
Transportation	22.9	36.4	20.2
Access to Land	17.4	17.1	17.4
Labour Regulations	10.8	14.6	10.1
Business Licensing and Operating permits	10.1	8.9	10.4
Telecommunications	5.2	7.0	4.5

Source Poverty Eradication Action Plan

Delays in procedures and constraints to business

Procedure	Delays
Utilities	Takes 1-2months to get an electricity connection; water connections are slow: no formal procedure for self-financing connections
Registration	Foreign businesses have to register with three agencies. Business registry and city council are slow. UIA takes 3-5 days. Times are longer than in Europe or North America though faster than in most African countries.
Tax appeals	Process formal and slow.
Duty drawback	Should take 7 days but can take months because of manual administration. Businesses report that it has become slower.
VAT refunds	Businesses report that it has become slower. URA reports period 10-26 days, almost always within the 30 days stipulated.
Imports border clearance	6 days
Imports veterinary./health inspection	5 days
Imports customs clearance	9 days
Land purchase	Sometimes a very slow process
Export border clearance	6 days
Exports veterinary/health clearance	3 days
Exports – customs clearance	4 days

Source Poverty Eradication Action Plan

Table 2.2: Millennium Development Goals in Uganda

	1990	1995	2000	2002
1 Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*			
Population below $1 a day (%)	..	..	..	..
Poverty gap at $1 a day (%)	..	..	..	..
% share of income or consumption held by poorest 20%	..	..	5.9	..
Prevalence of child malnutrition (% of children under 5)	23.0	25.5	22.8	..
Population below minimum level of dietary energy consumption (%)	23.0	25.0	19.0	..
2 Achieve universal primary education	*2015 target = net enrolment to 100*			
Net primary enrolment ratio (% of relevant age group)	..	87.3	..	..
% of cohort reaching grade 5 (%)	..	..	..	..
Youth literacy rate (% ages 15-24)	70.1	74.7	79.4	80.2
3 Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education (%)	76.8	81.0	..	..
Ratio of young literate females to males (% ages 15-24)	75.8	80.4	85.0	85.7
Share of women employed in the non-agricultural sector (%)	43.2	..	..	..
Proportion of seats held by women in national parliament (%)	..	17.0	..	..
4 Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	160.0	156.0	145.0	141.0
Infant mortality rate (per 1,000 live births)	93.0	92.0	85.0	83.0
Immunization, measles (% of children under 12 months)	52.0	57.0	61.0	77.0
5 Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modelled estimate, per 100,000 live births)	..	..	880.0	..
Births attended by skilled health staff (% of total)	38.3	37.8	39.0	..
6 Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (% ages 15-24)	..	..	4.6	..
Contraceptive prevalence rate (% of women ages 15-49)	4.9	14.8	22.8	..
Number of children orphaned by HIV/AIDS	..	..	880.0 thousand	..
Incidence of tuberculosis (per 100,000 people)	..	..	324.0	377.4
Tuberculosis cases detected under DOTS (%)	..	61.0	52.0	46.6

7 Ensure environmental sustainability	*2015 target = various (see notes)*			
Forest area (% of total land area)	25.9	..	21.3	..
Nationally protected areas (% of total land area)	..	9.7	9.7	24.9
GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	0.0	0.0	0.1	..
Access to an improved water source (% of population)	45.0	..	52.0	..
Access to improved sanitation (% of population)	..	..	79.0	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development	*2015 target = various (see notes)*			
Youth unemployment rate (% of total labour force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	1.7	2.1	13.9	18.1
Personal computers (per 1,000 people)	..	0.5	2.9	3.3
General indicators				
Population	17.4 million	20.3 million	23.9 million	24.6 million
Gross national income ($)	5.6 billion	4.7 billion	5.9 billion	5.9 billion
GNI per capita ($)	320.0	230.0	250.0	240.0
Adult literacy rate (% of people ages 15 and over)	56.1	61.8	68.0	68.9
Total fertility rate (births per woman)	7.0	6.7	6.2	6.0
Life expectancy at birth (years)	46.8	43.8	42.5	43.1
Aid (% of GNI)	15.8	14.7	14.4	11.2
External debt (% of GNI)	61.1	62.7	68.1	72.1
Investment (% of GDP)	12.7	16.4	20.1	21.7
Trade (% of GDP)	26.6	32.6	36.4	39.4

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Source: World Development Indicators database, April 2004

ANNEX 3: AID TO UGANDA

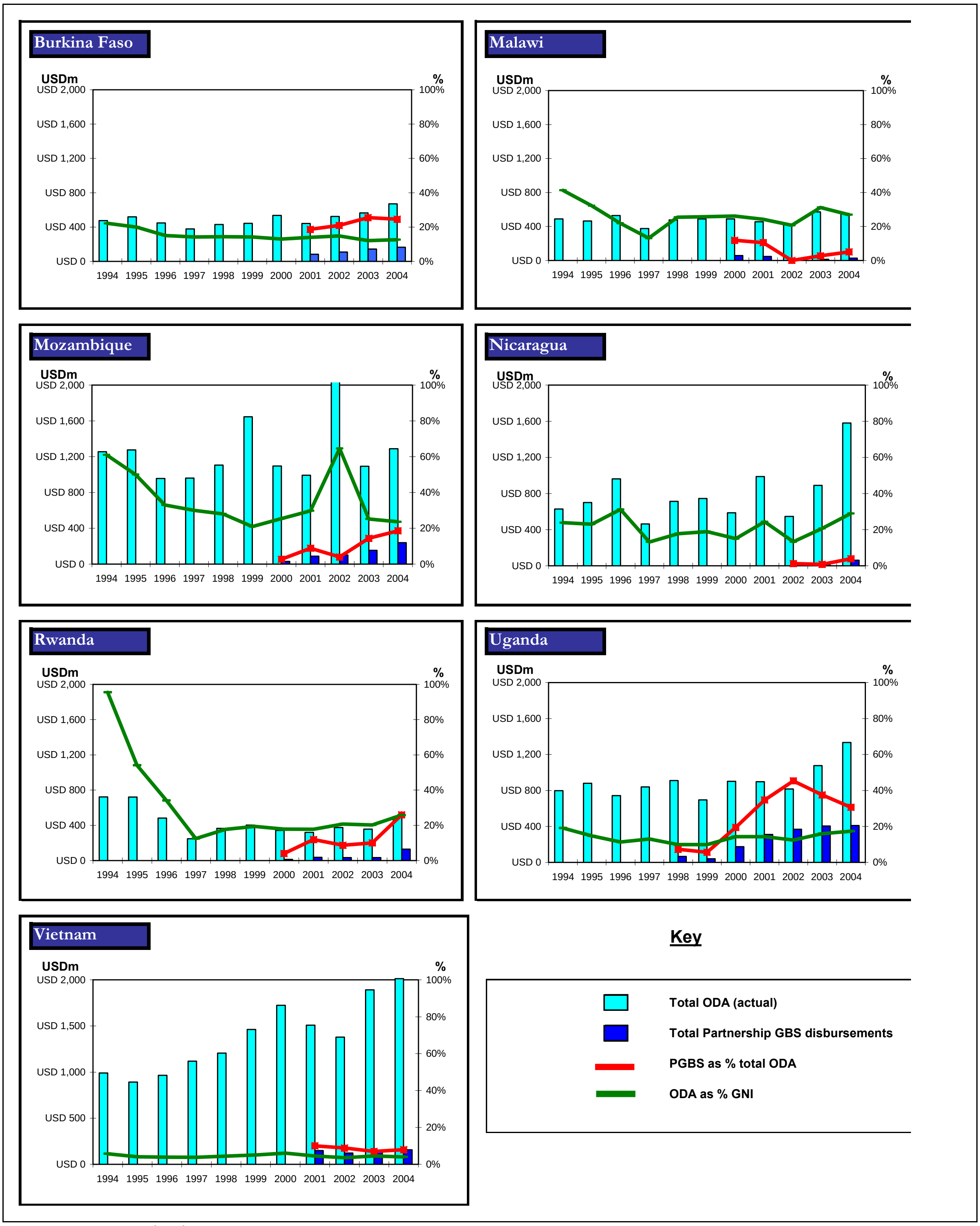
This Annex has the following main components:

- International data on aid flows to Uganda (Annex 3A).
- An inventory of GBS and related programmes in Uganda (Annex 3B).
- A detailed description of the design of PGBS (Annex 3C).
- A reproduction of the Partnership Principles as agreed in 2003 (Annex 3D).
- A reproduction of the Principles for PRSC Prior Actions (2005) (Annex 3E).

Annex 3A: Aid Data

Aid Flows to Evaluation Countries

Figure 3A.1: Aid and PGBS Flows to Evaluation Countries



Source: GBS Synthesis Report, Annex B

Aid Flows to Uganda

Table 3A.1: Summary of Aid Flows and PGBS to Uganda

(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A) Total ODA (actual) [1]	797.49	880.74	743.34	839.32	909.36	695.61	901.28	897.01	815.27	1,076.47	1,334.84	*OECD DAC cited Annex 3A*
(B) Total ODA excl. emergency and food aid (actual) [1]	792.62	863.77	727.83	814.81	886.82	666.16	887.20	871.93	775.33	962.77	1,179.92	*OECD DAC cited Annex 3A*
(C) Total Partnership GBS disbursements [2]	0	0	0	0	66.43	39.16	175.86	311.20	369.00	404.83	408.80	
Donors providing PGBS					*IDA, Netherlands, UK, USAID*	*Belgium, Ireland, Netherlands, UK, USAID*	*Austria, Belgium, IDA. Ireland, Netherlands, Sweden, UK*	*Canada, EC, IDA, Ireland, Netherlands, Norway, Sweden, UK, USAID*	*Austria, Canada, EC, France, Germany, IDA, Ireland, Netherlands, Norway, Sweden, UK, USAID*	*AfDB, Canada, Denmark, EC, France, IDA, Ireland, Netherlands, Norway, Sweden, UK, USAID*	*Austria, Canada, Denmark, EC, France, Germany, IDA, Ireland, Italy, Netherlands, Norway, Sweden, UK*	*MFPED cited Annex 3B Inventory*
(D) (SAF) and [ESAF programmes] followed by PRGF (disbu	-52	-56	-63	0	[49.95]	[35.22]	11.78	11.37	1.90	5.60	2.70	*OECD DAC 1993–2002 loans extended and MFPED cited Annex 3B Inventory*
(Ei) Total other unearmarked programme aid	223.6	118.00	144.50	117.00	132.00	109.20	60.30	35.50	0	0	0	
(Eii) *Donors providing unearmarked programme aid*	*EC, Germany, IDA, IMF, SIDA, UK*	*EC, Germany, IDA, IMF, UK*	*EC, IDA, IMF, UK*	*Adb, Austria, IMF, Japan, UK*	*EC, IMF, Japan, IDA, UK*	*EDI, IDA, UK*	*EC, IDA*	*ADB, IDA*				*MFPED cited Annex 3B Inventory*
(F) HIPC funding					37.20	56.22	74.39	80.70	93.10	61.70	64.67	*Ministry of Finance Budget Speeches*
(G) Central Government Expenditure	932.57	1,042.19	1,106.42	1,180.23	1,354.98	1,397.69	1,376.73	1,443.73	1,540.59	1,617.47	1,811.70	*MFPED cited Annex 4A*
(Ga) ODA as % of GNI	19.1	14.65%	11.27%	13.01%	9.92%	9.92%	14.26%	14.32%	12.40%	15.85%	17.32%	*OECD DAC*
(H) PGBS as % total ODA (%)	0	0	0	0	7.31%	5.63%	19.51%	34.69%	45.26%	37.61%	30.63%	
(I) PGBS as % central government expenditure (%)	0	0	0	0	4.90%	2.80%	12.77%	21.56%	23.95%	25.03%	22.56%	

Notes

[1] OECD/DAC data is in calendar years. All other data in financial years (1994 = FY1994/95)
[2] In line with the CR annex 3C (inventory), PGBS started in 1998 with notionally earmarked sector budget support and the Poverty Action Fund. There are three types of PGBS – Sector, PAF and Full PGBS

Memorandum items

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(J) Emergency Aid	n/a	2.95	10.93	13.83	12.98	19.81	4.49	9.01	29.04	89.24	136.60	*OECD DAC cited Annex 3A*
(K) Development Food Aid	4.9	14.02	4.58	10.68	9.56	9.64	9.59	16.07	10.90	24.46	18.32	*OECD DAC cited Annex 3A*
(L) Government Expenditure (UGX billlions)	913.4	1,009.80	1,157.40	1,278.20	1,680.60	2,033.40	2,264.01	2,534.70	2,769.29	3,176.26	3,279.70	*MFPED cited Annex 4A*
(M) Exchange rates refer to period averages. USD/UGX	979.4	968.92	1,046.08	1,083.01	1,240.31	1,454.83	1,644.48	1,755.66	1,797.55	1,963.72	1,810.30	*1994-2003 IMF - IFS; 2004 www.oanda.com*

Table 3A.2: Aid Flows by Major Donor as Reported to the OECD DAC

1994			1999			2003		
Donor	**Disbursed**	**% Total**	**Donor**	**Disbursed**	**% Total**	**Donor**	**Disbursed**	**% Total**
IDA	208.22	*27%*	IDA	125.73	*19%*	IDA	247.07	*27%*
United Kingdom	62.63	*8%*	United Kingdom	95.73	*14%*	United States	171.26	*18%*
United States	58.79	*8%*	EC	59.15	*9%*	United Kingdom	93.56	*10%*
Denmark	49.7	*7%*	Denmark	55.34	*8%*	EC	76.69	*8%*
EC	49.38	*6%*	United States	50.1	*7%*	Netherlands	46.88	*5%*
IMF	49.27	*6%*	IMF	33.58	*5%*	Denmark	43.62	*5%*
Japan	26.65	*3%*	Germany	25.96	*4%*	Ireland	36.41	*4%*
AfDF	25.9	*3%*	Japan	24.38	*4%*	Norway	33.35	*4%*
Germany	25	*3%*	Netherlands	26.49	*4%*	Sweden	26.81	*3%*
Netherlands	24.4	*3%*	AfDF	24.52	*4%*	Germany	24.92	*3%*
Remaining 30 Donors	183.65	*24%*	Remaining 29 Donors	150.48	*22%*	Remaining 30 Donors	130.13	*14%*

Source: OECD DAC Database

Sources of Financial Aid data and Discrepancies

1. In Annex 3A we have used OECD DAC data to provide information on overall aid flows. This has been done to enable comparisons across PGBS countries on the mix of aid instruments, although we have used MFPED data for PGBS flows.

2. Throughout the majority of the analysis in the main country report, and the remainder of this annex, MFPED data on aid flows is used to ensure consistency and comparability with MFPED public finance data, and enable comparison of data by financial years as OECD DAC data is provided only in calendar years. On the whole, aid flows using MFPED data are lower than OECD DAC figures, reflecting the fact that not all aid is on-budget.

Annex 3B: Inventory of GBS and Related Programmes

Table 3B.1: Description of Programme Aid and PGBS

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked) Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
Period	**1995 - 1998**	**Mostly Pre 2000**	**1998 to present day**	**1999 to present day**	**1999 to present day**
1. Programmes Included	All budget support notionally earmarked to the Multilateral Debt Fund. • Netherlands. • Denmark. • Sweden. • Austria. • Norway. • Switzerland.	All unearmarked budget support provided prior to 2000. • IMF ESAF. • Germany SASP. • IDA SAC. • EC Stabex and SASP. • UK Programme Aid. • Japan Import Support + Non Project Grant. • AfDB Structural Adjustment Loans (SALs).	All budget support notionally earmarked to sectors, including that earmarked to both PAF and sectors. • Water and Sanitation: Austria, Sweden Denmark. • Agriculture: IDA, UK, EC, Netherlands, Ireland. • Education: IDA, USAID, UK, Ireland, EC, Netherlands, Canada. • Health: Sweden, EC, UK, Belgium, France, Ireland, Italy, Denmark, Norway. • Justice Law and Order: UK, Ireland, Netherlands, Norway, Sweden. • Local Government: IDA, Netherlands, Austria, Denmark, Ireland.	All budget support earmarked to PAF only since 1998: • PABS IV. • Austria Debt Buyback. • Netherlands General PAF Support. • Sweden General PAF Support. • Norway General PAF Support. • Ireland General PAF Support.	All un-earmarked GBS budget support • World Bank PRSC. • Ireland GBS (now PAF GBS). • Netherlands GBS (now PAF GBS). • UK GBS/PRBS. • Germany. • AfDB Structural Adjustment Loans.

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
2. Intent of Programmes *What were/are the stated objectives of the programme (e.g. structural adjustment, poverty reduction, sector support)?* *What were/are the particular areas of focus? (e.g. public services, economic reforms, etc).*	The Multilateral Debt Fund was established by the Ministry of Finance and Group of Nordic donors, as a means of supporting Uganda's debt repayments from multilateral donors. This was intended to be able to free up revenues for increased allocations to social sector programmes.	The intent of these programmes in varying degrees was explicitly to provide balance of payments support, whilst also supporting the implementation of structural adjustment programmes.	Notionally earmarked sector budget support, in the context of sector wide approaches (SWAps) in Uganda, has been explicitly targeted towards supporting the implementation of sector or sub-sector development strategies. Initially the PAF allowed donors to channel their budget support to 1998 PEAP priority sectors, even when sector development strategies had not been fully developed In such context the objective was just to provide supplementary budget funding to specific programmes in the budget (e.g. primary healthcare).	The objectives have tended to be similar to full GBS but more explicitly to support expenditures in priority poverty reduction programmes from the PEAP. Underlying this is to use the PAF by donors as a means of justifying budget support to domestic constituencies, and shielding them from domestic fiduciary concerns. This was an early motivation for the formation of the PAF, and why the Irish more recently retreated from full GBS after concerns about defence expenditure. Some donors have also found it convenient to move from sector budget support to PAF budget support, but not to full GBS (e.g. Norway). The nature of the PAF changed in 2001, and commitments relating to the additionality of PAF resources and disbursements were relaxed. Meanwhile as the PRSC has been developed the PAF GBS has been linked closely to it, and there is increasingly less to distinguish between PAF and Full GBS.	All GBS is provided explicitly to support the implementation of the Poverty Eradication Action Plan. The largest instrument, to which most GBS instruments are linked is the PRSCs and their more specific objectives were originally to: • Improve public service delivery. • Strengthen government processes and systems. • Replace concurrent donor systems with one. • Improve predictability of resource flows. • Reduce transaction costs. Most Full GBS is explicitly linked to the PRSC. More recent GBS objectives have been fully consistent with the objectives of the third iteration of the PEAP.

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
3. Alignment with National Strategies *Is/was the programme aligned with a particular national strategy (e.g. the PRSP)?*	There was no explicit alignment with national strategies, but there was little need to, as the role of MDF funding was simple.	There was no explicit alignment with government strategies. However, government was from the mid 90s strongly committed to the types of structural adjustment promoted by these instruments.	Original sector budget support to the PAF was not aligned to sector strategies, but funding PEAP priority budget lines. The exception was DFID and IDA budget support to education which funded the education sector MTEF as a whole, and not PAF budget lines. The Education Sector budget was guided by the 1998 Education Sector Investment Plan. Over time other sectors developed strategies, which formed the focus of budget support funding and dialogue, and the PAF became of secondary importance. Now it is a matter of GOU policy in the partnership principles that sector budget support can only be provided if there is already an established sector development programme.	PAF GBS is aligned with the PEAP in a similar way to full GBS, however only explicitly supporting a subset of government expenditures. However, the overall MTEF is meant to represent overarching allocations towards the PEAP, and it has been argued that donor earmarking towards the PAF has put undue focus on specific subset of programmes within the PEAP, and not the comprehensive strategy. There is now very little to distinguish the objectives of PAF and full GBS.	There have been explicit efforts to align full GBS with the PEAP. Policy dialogue and conditions in the PRSC from the outset were been linked to the four pillars of the second PEAP. Dialogue and conditions were organised around a PRSC policy matrix which outlines objectives and actions to be undertaken by the government under each of the three pillars. However, these actions are not always part of the PEAP, although they are within the brought ambit of PEAP objectives. The PEAP 3 implementation matrix now plays the function of the PRSC matrix, instead of having a parallel instrument. Other GBS instruments explicitly link themselves to the PEAP, and PEAP objectives, but the PRSC steering committee is the main interface with government over GBS.
4. Level of Funding	USD 136m between 1994/95 and 1997/98.	USD 877m between 1994/95 and 2001/02.	USD 450m between 1998/99 and 2003/04.	USD 145m between 1999/00 and 2003/04.	USD 730m between 1999/00 and 2003/04.

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
5. Earmarking *(a) Is/was there any form of earmarking?*	There was a loose understanding between MDF donors and the Ministry of Finance that savings would be channelled towards social sector programmes.	(e.g. the EC, US, Denmark). However other donors did not require earmarking of the resulting expenditures.	Sector budget support in Uganda is notionally earmarked to sector budgets, which is why it is defined as GBS. Much sector budget support has also been explicitly earmarked to the PAF as well as the sector, making it targeted towards sub-sectors within sector strategies. Both sector budget support earmarked to sectors which happen to be in PAF and explicitly earmarked PAF sector budget support appear in the PAF budget as “PAF resources”, and these are matched in total to PAF expenditures. Whilst early sector budget support to the PAF funded additional allocations to specific priority budget lines within sector budgets (e.g. district classroom construction). Later sector budget support within the PAF was earmarked to the whole primary education and primary healthcare sub-sectors, or the sector budgets as a whole. Up until 2001 there was a general principle that sector budget support would result in a matching increase in sector budget allocations (whether inside or outside PAF); however due to the growth in the size of the deficit, GOU now does not make such an explicit commitment. PEAP priorities, through the MTEF processes are intended to guide inter sector resource allocations, not levels of sector budget support.	PAF General budget support is notionally earmarked to the priority PEAP expenditure programmes in the PAF. They appear alongside sector budget support and HIPC debt relief in the PAF budget as “PAF resources”. Up until 2001 GOU committed that all PAF support would result in additional allocations to PAF programmes over and above pre-HIPC budget allocations. Since then the commitment has been that GOU will maintain PAF expenditures as a proportion of the budget. The extent of PAF earmarking therefore no longer has any additionality effect on budget allocations. However the GOU does commit to disbursing at least 95% of budgeted funds to PAF programmes, and it does not make any such commitments to other parts of the budget.	Full GBS is not earmarked in any way, and just contributes to general budgetary resources.

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
6. Disbursement Procedures *(a) Alignment with Financial Years.*	Resource projections and disbursements were aligned with the financial years and included in the Macroeconomic Framework.	Resource projections and disbursements were aligned with the financial years and included in the Macroeconomic Framework.	Donors are asked to, and give projections of their intended level of budget support for forthcoming financial years during the budget process. To date this has usually been provided for a single financial year or the duration of the budget support contract, depending on the nature of the budget support agreement. Therefore, commitments are often only for one or two years, and not made on a rolling basis for the full 3 years of the MTEF. DFID is now considering implementing such a 3 year rolling approach which represents full alignment with the MTEF.		
(b) Tranches and Route for transfer of funds?	No information.	No information.	Originally disbursement procedures varied according to whether support was channelled via the PAF (see next column) or to the sector as a whole. Pure sector budget support has tended to be made up of a number of fixed tranches, often linked to the frequency of sector review process. There are still some holding accounts for sector budget support (e.g. education), to where donor funds are deposited before being credited to the consolidated fund, and released through the budget. Otherwise sector budget support is banked with the Bank of Uganda (BOU) which subsequently credits the consolidated fund. Disbursement of sector budget support in health and education is linked to the outcome of a sector review process (see below). Although disbursement of much sector budget support is now linked to the PRSC process in general, this still involves successful sector reviews.	PAF General and PAF Sector BS transfers were originally deposited with Bank of Uganda, which credit a separate (UGSs) PAF bank account within the consolidated fund. Transfers out of this account are now automatic, as early on, the Treasury often forgot to transfer funds out of that account. There is now nothing to distinguish disbursements procedures from full GBS and most disbursements are now linked to PRSC being on track.	Funds are deposited with the Bank of Uganda, and the UGS equivalent is credited to the consolidated fund, which is held at the Bank of Uganda. The PRSC, to which most GBS disbursements are linked, is an annual credit, and the credit is made effective upon government completing certain prior actions (see below). In the past when the GOU has failed to meet the prior action it has opted for the tranche to be delayed rather than reduced.

<table>
<tr><th><u>UGANDA</u></th><th>Multilateral Debt Fund</th><th>Balance of Payments (BOP) Support</th><th>(Notionally Earmarked)
Sector Budget Support</th><th>PAF General Budget Support</th><th>Full General Budget Support</th></tr>
<tr><td></td><td></td><td></td><td colspan="3">The specific number of tranches of different types of budget support depend on the donor rather than the type of GBS, although there were early attempts of coordination around sector budget support. There are a variety of approaches now:
• The AfDB, Denmark, Germany, Norway, Sweden and the World Bank have 1 fixed tranche per annum.
• The EC, UK and Ireland have a fixed and a variable tranche. The EC variable tranche is linked to performance indicators, whilst the UK and Ireland variable tranches are varied in relation to an assessment of performance with respect to the PRSC and governance indicators.
• The Netherlands have 1 tranche and this is split between general education and JLOS sector budget support.
Donors usually require requests from government before disbursements take place, and this becomes complex when there are varying types of disbursement. There is an ongoing debate as to whether development partners should harmonise their disbursement procedures, and more explicitly use fixed and variable tranches, however no agreement has yet been reached.</td></tr>
<tr><td rowspan="2">7. Framework of Conditionality and Performance Indicators
(a) Is there an underlying MOU or similar agreement?</td><td rowspan="2">There were simple agreements for providing MDF support.</td><td rowspan="2"></td><td>As with other types of budget support there are memoranda of understanding underlying all arrangements. Most Memorandums of Understanding (MOUs) refer to joint sector strategies and review processes. Some were linked to the PAF as well.</td><td>All PAF GBS arrangements have agreements underlying them. Original PAF GBS agreements would also refer to the 1998 PAF guidelines which set out Government of Uganda's (GOU's) own commitments with respect to PAF.</td><td>For all General Budget Support arrangements there are separate agreements between the Ministry of Finance and the various development partners, even those explicitly linked to the PRSC. Efforts were made in 2003 to develop a set of operational principles for full GBS, however they were never finalised.</td></tr>
<tr><td colspan="3">Some GBS agreements combine a number of types of GBS, combining un-earmarked full GBS, with an element of notionally earmarked budget support, which donors wish to highlight. This has been done by donors such as the UK and the Netherlands.</td></tr>
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<table>
<tr><th><u>UGANDA</u></th><th>Multilateral Debt Fund</th><th>Balance of Payments (BOP) Support</th><th>(Notionally Earmarked)

Sector Budget Support</th><th>PAF General Budget Support</th><th>Full General Budget Support</th></tr>
<tr>
<td rowspan="2">(b) Types of condition, including:
➢ Triggers for tranche release?
➢ Due process conditions (legally binding requirements for donors and recipients in giving and receiving money).
➢ Is satisfactory IMF status a condition?
➢ Other policy and performance conditions (cf. performance indicators).
➢ Political conditions (e.g. related to democracy, human rights, corruption, military spending and activity).
➢ Broader political conditionality (beyond the formal conditions, e.g. as revealed by interruptions and problems mentioned against Item 10).</td>
<td rowspan="2">There was little conditionality. Ministry of Finance was required to prepare a quarterly report on the status of the economy and Meet MDF donors. As mentioned earlier there was a loose agreement that savings would be allocated to the social sectors.</td>
<td rowspan="2">Much conditionality was prescriptive and related to the liberalisation and stabilisation agenda of structural adjustment. For example, World Bank conditions focused on Trade, Private Sector, Financial Sector, Tax as well as public sector reforms.</td>
<td>For early sector budget support. conditions were related to the PAF, and the Government was required to undertake PAF commitments (see next column).

With the evolution of SWAps disbursement of sector budget support soon required a successful sector review process, and progress against agreed actions, and achievement of agreed performance targets. As with GBS this involves a mixture of due process, with specific actions taking place. There are few explicit political conditions in sector budget support.

Each joint sector review will agree a series of undertakings, and sometimes also performance targets. These are usually drawn from and/or aligned with sector development strategies, which are increasingly aligned with the PEAP (sector undertakings reflect the PEAP matrix and vice versa).

These performance targets and undertakings are used to monitor sector performance at the following review, and where appropriate are integrated into the MTEF proposals.</td>
<td>Conditions were originally just linked to the original GOU commitments around PAF. These included:
• Quarterly Reports.
• Quarterly Review meetings.
• Budget disbursements to PAF programmes in full.
• 5% of PAF funds being allocated and spent on improved monitoring and accountability.
• Audit of PAF funds (which never happened, as it was later found appropriate to strengthen statutory audit of local governments).
• Later LG adherence to the PAF reporting process.
Beyond these there were no due process conditions or explicit performance indicators.

Over time PAF GBS has aligned itself with full GBS/PRSC type conditionality, and therefore has become more complex. Aside from the notional earmarking there is little difference between the two, although there are some variations.</td>
<td>Most Full GBS operations link themselves to the PRSC process. For each release of the PRSC (and support linked to it) GOU is required to fulfil a set of prior actions, which appear in the PRSC matrix. There are a large number of other actions in PRSC matrix, which GOU are meant to achieve, and are reviewed, but are not explicit conditions for disbursement.

Prior actions include a set of due process conditions centred on the budget, including the presentation of the MTEF, and budget execution in line with original allocations. The IMF programme also needs to be on track. In addition there are a few specific policy actions to which disbursement are tied, which vary from year to year.

Prior actions also include the completion of successful sector review processes. However occasionally specific prior actions within particular sectors are highlighted within the PRSC.

The PRSC itself does not deal with political conditions, although corruption issues are dealt with.</td>
</tr>
<tr>
<td>Reporting is all intended to be part of the joint sector review process, and no separate reporting is required outside of this. Usually some kind of Aide Memoire is prepared at the end of each joint review, and is signed by the various parties.

However there are some anomalies – such as support to Local Government, under the LGDP, where the reporting is separate to the recently started Annual Decentralisation processes. However only in 2005 was a strategy developed to underpin this process.</td>
<td colspan="2">Many full and PAF GBS agreements, although tight to the PRSC and IMF, also require other conditions.
• Governance conditions are being included by bilateral donors who would like them to be incorporated in the PRSC, which the WB and the Ministry of Finance have resisted. The donors have developed a governance matrix and some (e.g. the Netherlands, Norway, UK) governance conditions into their agreements.
• Whilst tying the disbursement to the PRSC some bilateral agreements highlight specific issues such as procurement reform, public expenditure processes, etc.
With the third iteration of the PEAP, the PRSC and all GBS operations linked to it will be using the PEAP implementation matrix to monitor government progress. This includes political governance issues, as well as sector specific actions, and should lead to greater alignment.</td>
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<table>
<tr><th><u>UGANDA</u></th><th>Multilateral Debt Fund</th><th>Balance of Payments (BOP) Support</th><th>(Notionally Earmarked)
Sector Budget Support</th><th>PAF General Budget Support</th><th>Full General Budget Support</th></tr>
<tr><td rowspan="2">(b) Performance indicators, including:
➢ Number of indicators.
➢ Nature (e.g. process indicators, result indicators
➢ Are they drawn from PRSP or other national policy documents?
➢ Are they linked to performance indicators for SWAps, etc?
➢ Are special reports required? How often?</td><td rowspan="2">There was little explicit conditionality attached. Uganda was meant to be paying multilateral debt obligations in full, and there was a lose expectation of equivalent increases in social expenditures.</td><td rowspan="2">Those performance indicators that were likely to be used, would have related to Macro Public Finance and Economic Issues, and be framed in terms of the World Bank/IMF GOU dialogue.</td><td rowspan="2">Early sector budget support via the PAF had no performance indicators. With the development of sector development plans and SWAps, sector performance criteria were established.
Through SWAp s and sector reporting processes, sectors monitor performance against the implementation of sector strategies, and these include the monitoring of sector performance indicators.
In addition sectors also produce progress reports, setting out progress against sector development plans as part of joint review processes. There are no separate reports for donors outside the review process.</td><td>Early PAF GBS did not involve any use of performance indicators beyond those relating to inputs - the size of the PAF budget, the additionality of PAF resources, and release performance.
With the evolution of full GBS, PAF GBS has been linked to the PRSC indicators, and subsequently become more closely linked to the PEAP.</td><td>Although performance with respect to poverty reduction and service delivery is monitored through government's poverty monitoring systems, GBS conditionality is more linked to due process and policy processes.
A poverty monitoring system was established in 2000 and this has been absorbed into a broader National Integrated Monitoring and Evaluation System. In addition to sector reporting there are budget performance reports prepared by the Ministry of Finance, and biennial poverty status reports. Through these processes the GOU reports on progress against PEAP performance indicators, and there is no parallel reporting to GBS donors.</td></tr>
<tr><td colspan="2">Performance against indicators in the PEAP matrix are now the focus for budget support donors.
The EC PRBS is the only agreement to link performance indicators to disbursement. Of budget support. Its variable tranche is linked to performance indicators in:
• Health (immunisation, outpatient attendance, deliveries).
• Education (enrolment, completion, literacy and numeracy levels).
• Public financial management (procurement, releases).</td></tr>
</table>

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
8. Procedures for Dialogue *What is the general context of dialogue)?* *Specific dialogue arrangements linked to this programme?*	There were quarterly meetings held with the Ministry of Finance at which statements of the state of the economy and budget performance were discussed.	Dialogue on programme aid was largely dominated by the IMF and World Bank Structural Adjustment loans, and was centred on the Ministry of Finance. Dialogue was focused on trade, private sector, financial sector issues. Discussions relating to public expenditure gained increasing importance but largely focused on issues of fiscal discipline, and not the content of sector expenditure programmes.	There are joint annual or twice yearly sector review processes which form the centre of dialogue for sector budget support donors with government. Civil society groups are also part of this dialogue. Sector donors, including those providing sector budget support, organise themselves into groups, and agree collective lines on issues to take to the joint review forum. The donor group is also represented on the sector working group which is responsible for preparing sector strategy and budget proposals. Donors can be part of the sector donor group, provided they are supporting the sector, regardless of the aid instrument being used, and there is no special treatment of budget support donors.	In 1998 there were no exclusive government-donor forums to discuss PAF budget support. Instead public PAF quarterly review meetings were the centre of the dialogue between government and sectors, and where government discussed performance in PAF programmes, including quarterly reports. In 2001 it was decided that the PAF quarterly reports and review meetings should be stopped and replaced by budget performance reports and open budget review forum. The latter never took off, but the PRSC steering committee and SWAp forum have replaced the PAF meetings as the focus of dialogue.	A PRSC steering committee was formed in 2000 and became the centre dialogue on General Budget Support over the review period. The World Bank and representatives of other development partners sit on this committee, and progress against the implementation of the PRSC matrix is reviewed. The consultative budget process is important for dialogue, and development partners are invited to comment of the Governments MTEF and Budget Strategy Document, the Budget Framework Paper, alongside civil society and Parliament. There are also quarterly Public Expenditure Review (PER) working group meetings at which quarterly budget execution figures are discussed. The sector review forums are the other important focus of dialogue. Under GOU's partnership principles any donor providing budget support is free to participate in any cross-sectoral or sectoral policy dialogue. Recently the chair of the PRSC steering committee has been shifted from the Ministry of Finance to the Office of the Prime Minister, as it was felt that OPM were better placed to play a coordinating role in the implementation of the PEAP and reforms across government.

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked) Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
9. Links to TA and Capacity Building ➢ *Is capacity building an explicit objective of this programme?* ➢ *Are any TA/capacity-building conditions attached to this programme?* ➢ *Are the GBS donors providing relevant TA/capacity-building support in parallel to this operation?* ➢ *Are other donors providing relevant TA/capacity-building support in parallel to this operation?*		Throughout the second half of the 1990s the EC, UK, IMF and World Bank, all providers of programme aid all provided technical assistance to the Ministry of Finance. In addition the World Bank did finance major technical assistance projects over the period (e.g. the Economic and Financial Management Programme). However it does not appear that this was explicitly linked to programme support.	In the context of sector wide approaches there appears to be a clearer link between technical assistance, capacity building and budget support funds. Some donors explicitly provide TA when providing sector budget support themselves (e.g. Belgians and Italians in Health, Swedes in Water and Sanitation). In other cases, TA and capacity-building modalities and strategies will be developed as part of the sectoral strategies, and then a donor will fund it (health, water and sanitation). In the context of the WB LGDP there is a programme which combines LG sector budget support with a programme of institutional capacity building to LGs on the basis of government systems. Despite this much TA and capacity building at a sector level remains project based, and not sufficiently linked to national processes.	Originally there was no explicit link to capacity building for PAF GBS donors. Instead a provision for the PAF was that 5% of PAF funding for enhancing. Some of this money was set up for strengthening the consultative budget process, especially at lower levels. As full GBS has evolved, TA and capacity building linked to PAF GBS has evolved in a similar way (see next column).	Improvements of government capacities and systems are specific objectives of General Budget Support. Although there is a lot of technical assistance and capacity building provided by donors in Uganda, this is not always explicitly linked to GBS operations. However those donors do provide long term technical assistance, and stand alone capacity-building programmes in areas of priority in the PRSC matrix, and many of those are donors which provide General Budget Support, whilst some are not. Often short term TA is procured to assist the Government of Uganda to fulfil certain actions in the PRSC matrix. As many donors are providing earmarked sector as well as General Budget Support, sectoral technical assistance and capacity building is provided in the context of sectoral support. The UK, which only provides GBS also gives some sector TA.

<table>
<tr><th><u>UGANDA</u></th><th>Multilateral Debt Fund</th><th>Balance of Payments (BOP) Support</th><th>(Notionally Earmarked)
Sector Budget Support</th><th>PAF General Budget Support</th><th>Full General Budget Support</th></tr>
<tr><td rowspan="2">10. Donor Harmonisation & Alignment
General context of H&A activities (e.g. is there a CDF pilot? SPA active?).
Is H&A built in to the BS operation (e.g. common calendar, joint missions, common set of indicators, pooling of BS funds, delegated cooperation or silent partnerships)?
Joint diagnostic and performance reviews (do these also incorporate non-BS donors, e.g. as part of SWAp, PER, etc)?</td><td rowspan="2">Donor procedures in the MDF seemed to be well aligned with each other, and represented a very simple, low transaction cost, way of delivering programme aid.</td><td rowspan="2">As these programmes were dominated by the IMF and World Bank, there was little need or demand for harmonisation and alignment between 1995 and 1998.
Bilateral donors were either providing programme aid via the MDF or had moved to project support.</td><td>At sectoral levels the SWAp arrangements of strategy, joint review, etc. form the basis of donor alignment and harmonisation.
Donors jointly review sector performance and allow themselves to be represented by the chairpersons of the donor groups, and budget support donors do generally hold to collective donor decisions.
Although donors at a sectoral level are coordinated, they often resent the broader budget processes, and the fact that additionality of budget support is no longer guaranteed. Sector donor groups and representatives have often put pressure on the Ministry of Finance to increase allocations (Health, JLOS).</td><td>At the outset donors used the PAF commitments (meetings, reporting, etc) as the basis of their agreements. This resulted in a degree of alignment with government systems, and harmonisation with each other. Donors giving GBS participated in PAF review meetings, and used this as their monitoring mechanism.
However the evolution of General Budget Support has increased the sophistication of individual donors' own instruments, and they have become less harmonised with each other.</td><td>The PRSC has been the chosen modality for harmonisation of GBS approaches across donors, and to a degree it has been successful.
Development partners have organised themselves into various sector and thematic (economists, governance) groups. These groups are the focus of dialogue on these issues. GBS Donors are allowed to take part in the dialogue in sectors and budget process provided they do so through the various thematic groups, and do not attempt to influence the process independently of each other. Sector dialogue is focused on joint sector review processes, and donors are represented on Sector working groups.</td></tr>
<tr><td colspan="3">Progress on alignment with PEAP and sector processes has been stronger than harmonisation, however there are different examples of harmonisation across budget support instruments:
• There are examples of increased selectivity, where some development partners delegate to others in sector dialogue.
• Many GBS donors have completely disengaged from some sectors, focusing on crosscutting dialogue around the PRSC.
• There have been efforts to harmonise PFM diagnostic instruments through the Country Integrated Fiduciary Assessment,. Prior to this donors required separate instruments to satisfy their head offices (e.g. DFID fiduciary risk assessments), although it remains to be seen whether they will continue to need separate instruments in future.
However although there is a large amount of high level harmonisation, there still remain a large number of separate reviews and donor administrative requirements, not least because donors are providing different types of support and interacting at different levels.</td></tr>
</table>

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
11. Experience in Implementation *If completed, how was it rated?* *Any particular problems, interruptions, etc?* *Any specific reviews or evaluations available?*	The MDF was a highly successful and simple mechanism for donors to disburse budget support. However by its nature it did not deal with issues relating to government's public expenditure policies and programmes.	Uganda was considered by many a model of structural adjustment. After the Ugandan government became convinced that a liberal market- led agenda was appropriate in the early 1990s, adherence to structural adjustment conditions was not a problem – political commitment was crucial to their success. However the emergence of new GBS arose from concern about the holistic content of government policies and their impacts on poverty, which was not covered under traditional structural adjustment programmes.	Sector earmarking was very important in the development of initial SWAps in Health and Education, who were able to enjoy large increases in allocations due to its additionality, whilst sector review and dialogue processes were being allocations. However notional earmarking now does not have the same additionality effect as it used to, and this has reduced the enthusiasm of new SWApsectors to engage in open dialogue with sector stakeholders. Now that sector dialogue is maturing, the role of sector earmarking is diminishing, and this puts extra emphasis on the importance of the budget process.	The PAF was a success at mobilising initial un-earmarked and earmarked sector budget support. However now the PAF has brought some rigidity into the budget allocation process at a macro level. Since the removal of additionality of budget support the impact of notional earmarking on the budget has been reduced. Now notional earmarking only really plays a role for domestic constituents in donor countries, as it enables them to "see" where their money has been allocated, although in reality it is fully fungible.	The WB PRSC to date has not been reduced or withheld, although disbursements have been delayed. Some bilateral funding has been reduced. This has usually been around issues relating to governance and defence expenditure. To date reviews of the GBS operation (GBS Evaluability, PRSC Stocktaking) have been largely positive about GBS. There is increasing concern among development partners about their inability to engage with the GOU on governance issues.

UGANDA	**Multilateral Debt Fund**	**Balance of Payments (BOP) Support**	**(Notionally Earmarked)** **Sector Budget Support**	**PAF General Budget Support**	**Full General Budget Support**
12. Information Sources	Completed Donor Questionnaires. UNDP Development Cooperation Reports. What Does the Showcase Show?	Completed Donor Questionnaires. UNDP Development Cooperation Reports. What Does the Showcase Show?	VPF Article. Budget Performance Reports. Completed Donor Questionnaires.	VPF Article. Budget Performance Reports. Completed Donor Questionnaires.	PRSC Stocktaking Study. GBS Evaluability Study. Budget Performance Reports. Completed Donor Questionnaires.

Table 3B.2: Programme Aid and PGBS Financial Flows: Commitments

						Commitments						
PROGRAMME NAME	**DONOR**	**Start Date**	**Loan/ Grant**	**Type**	**Currency**	**Total**	**Total Annual**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Structural Adjustment Loan I	AfDF	1999	Loan	BOP	US$ million		19.30			19.30		
Structural Adjustment Loan II	AfDF	1999	Loan	BOP	US$ million		58.60	19.30	19.30	20.00		
Structural Adjustment Loan III	AfDF	2002	Loan	FULL	US$ million		52.00				25.50	26.50
Austria - Justice Reform	Austria	2001	Grant	SECTOR	US$ million		1.20			0.50		0.70
Austria - SWAP	Austria	2002	Grant	SECTOR	US$ million		1.00				1.00	
Austria General PAF Support	Austria	1999	Grant	SECTOR	US$ million		2.00	2.00				
Austria LGDP	Austria	2003	Grant	SECTOR	US$ million		0.30					0.30
Austria Water & Sanitation	Austria	2003	Grant	SECTOR	US$ million		1.70					1.70
MDF Austria (95-98)	Austria	1995	Grant	MDF	US$ million	**5.42**						
Tanzania Debt Buyback (98)	Austria	1998	Grant	BOP	US$ million	**3.23**						
Belgium Health	Belgium	1999	Grant	SECTOR	US$ million		8.00	4.00	4.00			
Canada Education	Canada	2001	Grant	SECTOR	US$ million		3.90			1.30	1.30	1.30
Denmark Health	Denmark	2003	Grant	SECTOR	US$ million		1.83					1.83
Denmark LGDP	Denmark	2003	Grant	SECTOR	US$ million		0.80					0.80
Denmark Water & Sanitation	Denmark	2003	Grant	SECTOR	US$ million		1.77					1.77
MDF Danida (95-96)	Denmark	1995	Grant	MDF	US$ million	**5.34**						
MDFII Danida (97-98)	Denmark	1997	Grant	MDF	US$ million	**22.17**						
EC Education	EC	1999	Grant	SECTOR	US$ million		48.78	7.99	16.69	17.90	6.20	
EC Health	EC	?	Grant	SECTOR	US$ million	**?**						
EC PMA	EC	2002	Grant	SECTOR	US$ million		41.00			20.00	21.00	
EC SASP (IV) Poverty Alleviation Budget Support (PAB	EC	2000	Grant	PAF	US$ million		108.40	0.00	37.20	23.80	15.50	31.90
Stabex (98-99)	EC	1999	Grant	BOP	US$ million	**18.39**	16.01	16.01				
Stabex 92 coffee (94-95)	EC	1994	Grant	BOP	US$ million	**26.89**	0.00					
Stabex 92 hides and skins (94-95)	EC	1994	Grant	BOP	US$ million	**1.88**	0.00					
Stabex 93 coffee (95)	EC	1995	Grant	BOP	US$ million	**57.32**	0.00					
Stabex 93 hides and skins (95)	EC	1995	Grant	BOP	US$ million	**0.57**	0.00					
Structural Adjustment Programme II (96-97)	EC	1996	Grant	BOP	US$ million	**37.83**	0.00					
Structural Adjustment Support Programme III (99-03)	EC	1999	Grant	BOP	US$ million	**54.61**	54.31	54.31				
France Health	France	2993	Grant	SECTOR	US$ million		1.10					1.10
Germany General Budget Support	Germany	2003	Grant	FULL	US$ million						4.20	5.00
Structural Adjustment Programme 3 (93-96)	Germany	1993	Grant	BOP	US$ million	**3.64**						
Agriculture Adjustment Credit (90-96)	IDA	1990	Loan	BOP	US$ million	**94.29**						
Education Sector Adjustment Credit (98-01)	IDA	1998	Loan	SECTOR	US$ million	**80.00**	35.00	35.00				
EFMPII	IDA	2000	Loan	SECTOR	US$ million		4.18			0.30	0.88	3.00
National Agriculture Advisory Services	IDA	2001	Loan	SECTOR	US$ million	**?**						
Structural Adjustment Credit II (94-96)	IDA	1994	Loan	BOP	US$ million	**83.35**						
Structural Adjustment Credit III (97-98)	IDA	1997	Loan	BOP	US$ million	**124.48**	118.10	80.00	20.00	18.10		
World Bank LGDP I&II	IDA	1999	Loan	SECTOR	US$ million		83.07	4.75	16.12	16.10	23.00	23.10
World Bank PRSC (01-)	IDA	2001	Loan	FULL	US$ million		734.60		125.00	300.00	150.00	159.60
Enhanced Structural Adjustment Facility	IMF	1989	Loan	BOP	US$ million	**695.19**	55.50					
Poverty Reduction and Growth Facility	IMF	2002	Loan	BOP	US$ million	**19.50**						
Ireland Education (PAF)	Ireland	1999	Grant	SECTOR	US$ million		17.73	3.43	2.17	3.20	3.60	5.33
Ireland Education Strategic Investment Plan	Ireland	2001	Grant	SECTOR	US$ million		9.50			2.30	2.80	4.40
Ireland General Budget Support	Ireland	2000	Grant	FULL	US$ million		13.65		2.95	10.70		
Ireland General PAF Support	Ireland	2003	Grant	PAF	US$ million		28.80				11.20	17.60
Ireland Health	Ireland	2000	Grant	SECTOR	US$ million		18.47		1.00	2.60	5.30	9.57
Ireland Justice Reform	Ireland	2001	Grant	SECTOR	US$ million		9.90			0.40	0.60	8.90
Ireland PMA	Ireland	2001	Grant	SECTOR	US$ million		4.00			2.60	0.60	0.80
Ireland LGDP	Ireland	2004	Grant	SECTOR		**?**						
Italy Health	Italy	2003	Grant	SECTOR	US$ million	**?**						
Import Support (97-98)	Japan	1997	Grant	BOP	US$ million	**9.28**						
Non-project Grant (98-99)	Japan	1998	Grant	BOP	US$ million	**7.63**						
MDF Netherlands (95-96)	Netherlands	1995	Grant	MDF	US$ million	**34.25**						
MDFII Netherlands (97-98))	Netherlands	1997	Grant	MDF	US$ million	**5.00**						
Netherlands - District Development	Netherlands	2000	Grant	SECTOR	US$ million		20.13		4.23	5.40	5.00	5.50
Netherlands - Justice Reform	Netherlands	2001	Grant	SECTOR	US$ million		9.80			1.00	4.40	4.40
Netherlands Education	Netherlands	1999	Grant	SECTOR	US$ million		38.43	4.00	4.33	9.10	15.10	5.90
Netherlands General Budget Support	Netherlands	2002	Grant	FULL	US$ million		19.60				9.30	10.30
Netherlands General PAF Support	Netherlands	1999	Grant	PAF	US$ million		23.06	10.00	6.76	6.30		
Netherlands PMA	Netherlands	2002	Grant	SECTOR	US$ million		2.10				1.00	1.10
Netherlands Procurement Reform	Netherlands	2001	Grant	SECTOR	US$ million		5.00			1.00	2.00	2.00
MDF Norway (95-98)	Norway	1995	Grant	MDF	US$ million	**6.12**						
Norway General PAF Support	Norway	2003	Grant	PAF	US$ million		7.20					7.20
Norway Health	Norway	2002	Grant	SECTOR	US$ million		6.90				2.80	4.10
Norway Justice Reform	Norway	2001	Grant	SECTOR	US$ million		0.60			0.10	0.50	
SIDA Grant Debt Service (95)	SIDA	1995	Grant	BOP	US$ million	**8.38**						
MDF Sweden (95-98)	Sweden	1995	Grant	MDF	US$ million	**27.33**						
Sweden - SWAP	Sweden	2002	Grant	SECTOR	US$ million		3.40				1.00	2.40
Sweden General PAF Support	Sweden	2000	Grant	PAF	US$ million		16.50		6.00		6.50	4.00
Sweden Health	Sweden	2000	Grant	SECTOR	US$ million		10.00		2.50	2.50	2.50	2.50
Sweden Water & Sanitation	Sweden	2003	Grant	SECTOR	US$ million		2.50					2.50
MDF Switzerland (95-98)	Switzerland	1995	Grant	MDF	US$ million	**16.62**						
Swiss - Trade Sector	Switzerland	2000	Grant	SECTOR	US$ million							
UK Education Sector Programme Aid (97-00)	UK	1997	Grant	SECTOR	US$ million	**109.53**	78.10	22.40	18.60	17.00	20.10	
UK General Budget Support	UK	1999	Grant	FULL	US$ million		149.80		31.00	24.70	28.30	65.80
UK Health	UK	2000	Grant	SECTOR	US$ million		43.45		7.75	14.10	21.60	
UK Justice Reform/Law and Order	UK	2001	Grant	SECTOR	US$ million		3.80			3.50	0.30	
UK Programme Aid	UK	1997	Grant	BOP	US$ million	**153.42**	26.80	26.80				
UK PMA	UK	2000	Grant	SECTOR	US$ million		8.65		1.55	7.10		
Support to Primary Education Reform (92-02)	USAID	1992	Grant	SECTOR	US$ million	**83.00**	40.00	8.00	8.00	16.00	8.00	
Vegetable Oil (87-00)	USAID	1987	Grant	BOP	US$ million	**11.71**						
							2,070.32	**297.99**	**335.15**	**566.90**	**401.08**	**422.90**

Sources: UNDP/MFPED Development Cooperation and MFPED Budget Performance Reports

Table 3B.3: Programme Aid and PGBS Financial Flows: Disbursements

PROGRAMME NAME	DONOR	Type	Total	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Structural Adjustment Loan I	AfDF	BOP	**17.20**								17.2		
Structural Adjustment Loan II	AfDF	BOP	**19.11**				19.0		0.1				
Structural Adjustment Loan III	AfDF	FULL	**29.3**										29.3
Austria - Justice Reform	Austria	SECTOR	**0.5**							0.5			
Austria - SWAP	Austria	SECTOR	**0.76**							0.3		0.5	
Austria General PAF Support	Austria	SECTOR											
Austria LGDP	Austria	SECTOR											
Austria Water & Sanitation	Austria	SECTOR											
MDF Austria (95-98)	Austria	MDF	**5.42**			5.4							
Tanzania Debt Buyback (98)	Austria	BOP	**3.23**				3.2						
Belgium Health	Belgium	SECTOR	**3.14**						1.8	1.3			
Canada Education	Canada	SECTOR	**5.5**								2.2	1.3	2.0
Denmark Health	Denmark	SECTOR	**2.7**										2.7
Denmark LGDP	Denmark	SECTOR	**0.8**										0.8
Denmark Water & Sanitation	Denmark	SECTOR	**1.8**										1.8
MDF Danida (95-96)	Denmark	MDF	**38.26**	5.3	12.1	20.8							
MDFII Danida (97-98)	Denmark	MDF	**3.71**				3.7						
EC Education	EC	SECTOR	**22.60**								16.5	6.1	
EC Health	EC	SECTOR	**-**										
EC PMA	EC	SECTOR	**1.40**									1.4	
EC SASP (IV) Poverty Alleviation Budget Support (PABS)	EC	PAF	**49.4**									17.0	32.4
Stabex (98-99)	EC	BOP	**31.92**					17.6	7.2	7.1			
Stabex 92 coffee (94-95)	EC	BOP	**27.95**	27.9									
Stabex 92 hides and skins (94-95)	EC	BOP	**2.07**	2.1									
Stabex 93 coffee (95)	EC	BOP	**57.32**	57.3									
Stabex 93 hides and skins (95)	EC	BOP	**0.57**	0.6									
Structural Adjustment Programme II (96-97)	EC	BOP	**36.92**		18.0	18.9							
Structural Adjustment Support Programme III (99-03)	EC	BOP	**103.02**					52.6	40.3	10.2			
France Health	France	SECTOR	**2.8**									1.7	1.1
Germany General Budget Support	Germany	FULL	**4.2**									4.2	
Structural Adjustment Programme 3 (93-96)	Germany	BOP	**0.54**	0.2	0.4								
Agriculture Adjustment Credit (90-96)	IDA	BOP	**5.61**	1.8	3.3	0.5							
Education Sector Adjustment Credit (98-01)	IDA	SECTOR	**78.20**					45.0		33.2			
EFMPII	IDA	SECTOR	**1.4**										1.4
National Agriculture Advisory Services	IDA	SECTOR	**0.3**									0.3	?
Structural Adjustment Credit II (94-96)	IDA	BOP	**116.36**	62.8	0.1	53.5							
Structural Adjustment Credit III (97-98)	IDA	BOP	**99.84**						38.5	43.0	18.3		
World Bank LGDP I&II	IDA	SECTOR	**70.4**							7.2	15.7	21.4	26.1
World Bank PRSC (01-)	IDA	FULL	**470.1**								147.7	169.5	152.9
Enhanced Structural Adjustment Facility	IMF	BOP	**279.81**	52.5	55.8	63.2		50.0	35.2	11.8	11.4		
Poverty Reduction and Growth Facility	IMF	BOP	**7.54**									1.9	5.6
Ireland Education (PAF)	Ireland	SECTOR	**18.2**						2.6	2.7	3.5	3.9	5.5
Ireland Education Strategic Investment Plan	Ireland	SECTOR	**9.9**								2.5	3.2	4.2
Ireland General Budget Support	Ireland	FULL	**14.40**								3.4	11.0	
Ireland General PAF Support	Ireland	PAF	**18.9**										18.9
Ireland Health	Ireland	SECTOR	**18.4**							0.9	2.8	4.9	9.8
Ireland Justice Reform	Ireland	SECTOR	**6.3**							0.1	0.5	0.6	5.1
Ireland PMA	Ireland	SECTOR	**1.7**								0.3	0.6	0.8
Irland LGDP	Ireland	SECTOR	**1.5**										1.5
Italy Health	Italy	SECTOR											
Import Support (97-98)	Japan	BOP	**8.87**			7.0	1.9						
Non-project Grant (98-99)	Japan	BOP	**7.90**				5.7	2.2					
MDF Netherlands (95-96)	Netherlands	MDF	**33.56**	18.7	14.9								
MDFII Netherlands (97-98))	Netherlands	MDF	**5.00**				5.0						
Netherlands - District Development	Netherlands	SECTOR	**17.2**							3.3	1.9	6.1	5.9
Netherlands - Justice Reform	Netherlands	SECTOR	**7.5**							0.2	0.6	2.3	4.4
Netherlands Education	Netherlands	SECTOR	**39.0**					3.4	2.9	4.3	8.8	10.9	8.8
Netherlands General Budget Support	Netherlands	FULL	**33.1**									7.7	25.4
Netherlands General PAF Support	Netherlands	PAF	**41.24**						6.4	26.4	8.5		
Netherlands PMA	Netherlands	SECTOR	**2.1**								0.4	0.5	1.2
Netherlands Procurement Reform	Netherlands	SECTOR	**4.9**								1.4	1.5	2.0
MDF Norway (95-98)	Norway	MDF	**6.20**		-	6.2							
Norway General PAF Support	Norway	PAF	**7.7**									7.0	0.7
Norway Health	Norway	SECTOR	**12.4**								2.2	2.7	7.5
Norway Justice Reform	Norway	SECTOR	**0.10**								0.1		
SIDA Grant Debt Service (95)	SIDA	BOP	**8.38**	8.4									
MDF Sweden (95-98)	Sweden	MDF	**28.42**		12.0	16.5							
Sweden - SWAP	Sweden	SECTOR	**2.0**							0.1			1.9
Sweden General PAF Support	Sweden	PAF	**27.4**							5.7	5.5	7.3	8.8
Sweden Health	Sweden	SECTOR	**16.9**							1.9	4.7	1.7	8.6
Sweden Water & Sanitation	Sweden	SECTOR	**2.5**										2.5
MDF Switzerland (95-98)	Switzerland	MDF	**15.04**		8.2		6.9						
Swiss - Trade Sector	Switzerland	SECTOR	**0.12**							0.1			
UK Education Sector Programme Aid (97-00)	UK	SECTOR	**85.40**					10.0	17.5	21.7	17.1	19.1	
UK General Budget Support	UK	FULL	**161.8**							57.3	25.5	48.1	30.9
UK Health	UK	SECTOR	**21.65**							7.4	14.3		
UK Justice Reform/Law and Order	UK	SECTOR	**3.60**								3.6		
UK Programme Aid	UK	BOP	**147.98**	7.4	31.1	31.1	33.3	21.8	23.2				
UK PMA	UK	SECTOR	**8.47**							1.5	7.0		
Support to Primary Education Reform (92-02)	USAID	SECTOR	**58.29**		8.0	5.3	8.0	8.0	8.0		14.5	6.5	
Vegetable Oil (87-00)	USAID	BOP					3.8						
	TOTAL		**2,505.5**	**244.9**	**163.9**	**228.3**	**90.6**	**210.6**	**183.6**	**247.9**	**358.1**	**370.9**	**410.4**
	Of which	***PGBS***	***1,387.7***					***66.4***	***39.1***	***175.9***	***311.2***	***369.0***	***404.8***
		FULL	*713.0*							*57.3*	*176.6*	*240.5*	*238.5*
		PAF	*144.6*						*6.4*	*32.1*	*14.0*	*31.3*	*60.8*
		SECTOR	*530.2*					*66.4*	*32.8*	*86.5*	*120.6*	*97.2*	*105.5*

Sources: UNDP/MFPED Development Cooperation and MFPED Budget Performance Reports

Annex 3C: The Design of PGBS

Introduction

1. This annex provides an overview of the three types of PGBS instrument in Uganda. We describe the objectives of different PGBS instruments, and their associated inputs in terms of funding, policy dialogue, conditionality, technical assistance and capacity building (TA/CB), harmonisation and alignment (H&A). We have identified three types of partnership budget support:

- *Sector Budget Support*: budget support notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the Poverty Action Fund.
- *PAF General Budget Support:* budget support that is notionally earmarked to the Poverty Action Fund as a whole, and not to individual sectors.
- *Full General Budget Support*, which is completely unearmarked.

However, the boundaries are often blurred and therefore we discuss the PGBS inputs together, describing the differences as well as common features.

The Objectives and Intent of General Budget Support Programmes

2. Early Poverty Action Fund (PAF) and sector budget support was earmarked to specific programmes with the intention of providing additional resources to specific PAF and sector budget lines. Although the PAF was explicitly designed to reorient the budget towards PEAP 1 objectives, the sector budget support itself was often input-driven, rather than tied to specific poverty reduction objectives. As they evolved, sector budget support instruments moved away from funding specific budget lines to funding whole sectors and sub-sectors, and the objectives became more closely aligned with overall sector strategies.

3. The initial PRSC in 2001 was the first full GBS instrument: its explicit objective was to support Uganda in the implementation of the Poverty Eradication Action Plan as a whole. Although the specific objectives of the PRSC were not directly drawn from PEAP 2 they were explicitly linked to the PEAP pillars. In addition to strengthening government processes and systems, other explicit objectives emerged for the PRSC as it became clear that other donors wished to take part in the PRSC process: to replace concurrent donor systems with one, to improve predictability of resource flows, and to reduce transaction costs.

4. Subsequent full GBS arrangements have also been strongly linked to supporting the objectives of the PEAP, as donors subscribed to the Partnership Principles (see Table 3C.1 for evolution of the PRSC). Some donors may still emphasise different elements of the PEAP as important, but the PEAP objectives are usually prominent in the design. Current thinking is that GBS operational objectives should be fully grounded in PEAP objectives.

Table 3C.1: Evolving PRSC Objectives and Scope of Policy Dialogue

PRSC1 (2001)	**PRSC 3 Matrix (2003)**	**PEAP 3 Matrix - PRSC 5 (2005)**
PEAP PILLAR 1 – Framework for Economic Growth and Structural Transformation. PRSC Objective: Efficient and Equitable Use of Public Resources: - Allocations and actual expenditures, Intergovernmental Transfers, results orientation. *Number of actions: 6.*	**PEAP PILLAR 1 – Framework for Economic Growth and Structural Transformation.** PRSC Objective: Efficient and Effective Use of Resources: - Allocations and actual expenditures, Intergovernmental Transfers, results orientation and m*onitoring and evaluation, financial sector.* *Number of Actions: 12.*	**PEAP Pillar 1 – Economic Management:** - Macroeconomic stability consistent with rapid private-sector led growth. *Number of Actions: 24.*
PEAP PILLAR 2 - Ensuring Good Governance and Security. PRSC Objective: Improve service delivery through cross-cutting reforms: - Improving management systems in the public sector: Public service management, procurement, financial management, M&E. - Increase transparency, participation and reduce corruption: Transparency, civil society, corruption, legal and judicial reform. *Number of Actions: 21.*	**PEAP PILLAR 2 – Ensuring Good Governance and Security.** PRSC Objective: Improve service delivery through cross-cutting reforms: - Improving management systems in the public sector: Public service management, procurement, financial management, M&E. - Increase transparency, participation and reduce corruption: transparency, civil society, corruption, legal and judicial reform. *Number of Actions: 33.*	**PEAP Pillar 4 - Good Governance:** - Strengthened Political Governance. - Improved Human Rights. - Public Sector Management and Accountability. *Number of Actions: 42*. **PEAP Pillar 3 – Security, Conflict Resolution and Disasters:** - Protection of persons and their property through elimination of conflicts and cattle rustling, resettlement of Internally Displaced Persons, and strengthened disaster management. *Number of Actions: 15.*
PEAP PILLAR 3 - Directly Increasing the Ability of the Poor to Raise their Incomes. No PRSC Objective: - Plan for Modernisation of Agriculture. *Number of Actions: 0.*	**PEAP PILLAR 3 - Directly Increasing the Ability of the Poor to Raise their Incomes.** PRSC Objective: Promotion of Enabling Environment for Rural Development: - *Research and Technology, Ag. Advisory Services, Rural Finance, Agro Processing and Marketing, Natural Resource Management, District Roads.* *Number of Actions: 12.*	**PEAP Pillar 2 – Production, Competitiveness and Incomes:** - Increased, more efficient Private Sector Production; Agricultural Production; Sustainable Forestry Production non-agriculture goods and services. - Strengthened infrastructure Strengthened Env. and Natural Resource (NR) management regime. - Strengthened financial sector in support of production. *Number of Actions: 62.*
PEAP PILLAR 4 – Directly Improving the Quality of Life of the Poor. PRSC Objective: Improve Delivery of Basic Services: - Improve Quality of Education: Successful sector review, primary education, cost efficiency. - Improve Quality of Health Care: Successful sector review, Healthcare Financing, procurement capacity and policy, human resources, health infrastructure. - Improve Access and Equity in Water and Sanitation: Access to rural water and sanitation, access in small towns, access in urban areas. *Number of Actions: 19*	**PEAP PILLAR 4 – Directly Improving the Quality of Life of the Poor.** PRSC Objective: Improve Delivery of Basic Services: - Improve Quality of Education: Successful sector review. - Improve Quality of Health Care: Successful sector review. - Improve Access and Equity in Water and Sanitation: Access to rural water and sanitation, access in small towns, access in urban areas. *Number of Actions: 13.*	**PEAP Pillar 5 - Human Development:** - Better educated Ugandans. - Healthier Ugandans. - Improved water and sanitation systems. - Inclusive and Empowered Communities. *Number of Actions: 55.*
Total Number of Actions: 46.	**Total Number of Actions: 70.**	**Total Number of Actions: 201.**

The Level and Nature of GBS Funding

Volume and additionality

5. The first and most important GBS input is money. The introduction of the PAF was not accompanied by a big increase in programme aid: apart from the HIPC funds themselves (which were substantial) the funds channelled to the PAF were a substitute for Multilateral Debt Fund (MDF) financing, rather than a net increase. However, after the introduction of full GBS the amount of programme aid to Uganda increased rapidly from the base of USD 150m in 1999/00 to USD 350m in the three financial years from 2001/02, and it has steadily increased to USD 400m in 2003/04. Programme aid as a proportion of total aid receipts increased from 36% in 1999/00 to 56% in 2001/02, and since then it has stayed above 50%.

6. By 2003/04 there were 13 different donors providing GBS, and these donors were operating 34 different budget support programmes, of which 25 were sector budget support programmes (see the inventory in Annex 3B). However, in value terms it is PAF and full GBS instruments which dominate, accounting for 68% of GBS funding between 2000/01 and 2003/04, of which 56% has been full GBS, 12% PAF GBS. Despite the large number of operations, sector budget support accounted for only 32% of budget support disbursements.

7. In comparison since the shift to GBS there has been no distinct trend either upwards or downwards for project financing in real terms. In totality therefore, GBS inputs have dramatically increased both in absolute terms and relative to project support.

8. Until 2001, the Ministry of Finance, Planning and Economic Development (MFPED) gave an explicit commitment that new sector and PAF GBS would result in an equivalent increase in budget allocations. For example a PAF GBS programme for USD 5m would result in an equivalent increase in the overall budget for all PAF programmes in Uganda shilling terms at the projected exchange rate for the financial year. Similarly a sector budget support programme would result in a commensurate increase in sector budget allocations.

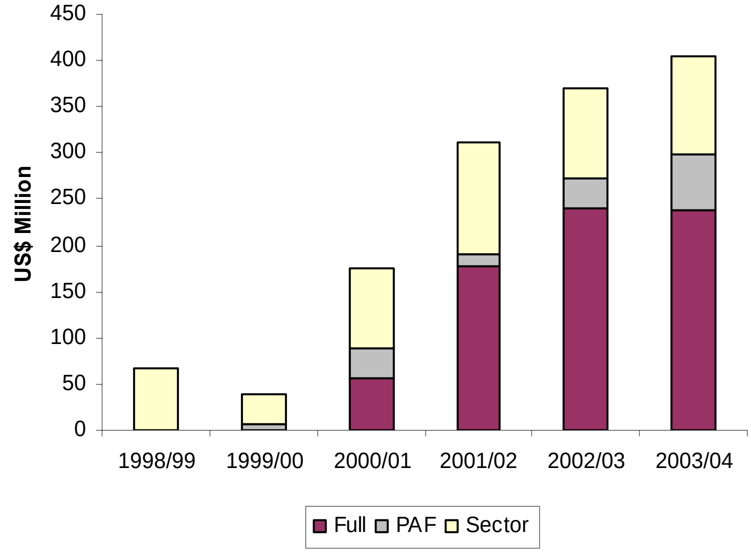
9. However, by 2001 GOU was concerned about the size of the budget deficit (as measured excluding grants), and therefore decided to limit the size of public expenditure. This meant that new sector budget support agreements for Justice, Law and Order and Agriculture sectors did not result in equivalent increases in their budgets. Thus the earmarking of budget support has become increasingly notional.

Duration and disbursement

10. The duration of budget support agreements varies, as does the number of tranches of funds disbursed within the financial year. Some donors have opted for multiple fixed tranches during the financial years, others single fixed tranches.

11. One area of design which is fairly consistent across instruments is the route of transfer of funds. Budget support is deposited as foreign exchange in accounts held by the Bank of Uganda, and the Consolidated Fund is credited with an equivalent amount in local currency within 48 hours. There are some specific holding accounts for sector budget support: in the education sector, for example funds are transferred into a holding account before being transferred into the consolidated fund. There is also a PAF account within the Consolidated Fund to which funds for the PAF and sector GBS within the PAF are credited before being automatically transferred into the general Consolidated Fund.

Figure 3C.1: Level of GBS Funding



Source: MFPED.

12. Some agreements are annual whilst others are for a fixed term of multiple years; however, during the evaluation period there were no rolling medium term agreements that would match the government MTEF cycle. In 2005 DFID introduced such an approach, replacing fixed multi-annual commitments.

13. Therefore, there was nothing in the design of early GBS agreements, preventing rapid discontinuation of budget support funding. Moreover, nothing in the agreements reduced the possibility of in-year suspension. The issue of predictability was explicitly discussed as part of the first PRSC design, but the World Bank and GOU opted for a series of annual single tranche budget support agreements, on the basis that the risk of delays or interruptions was offset by the guarantee that funds would be fully disbursed once the prior conditions had been met (see Miovic 2005 for a review of the debate between annual and multi-annual approaches of the PRSC). Although each PRSC is technically a separate agreement, they are a linked series of operations whose preparation overlaps.

14. Recently Norway, Ireland, EC and the UK have introduced a system of fixed and variable tranches. The variable tranche is intended to allow a graduated response to (adverse) changes in government performance, while reducing the likelihood of a mass withdrawal of funding.

Policy-Focused Dialogue and Conditionality

Introduction

15. Accompanying the finance, a second key element of the PGBS approach is to focus dialogue on government systems and processes and away from individual projects, while basing conditionality on government policies and plans, rather than imposing conditions from outside.

16. Partnership style policy-focused dialogue first evolved around the budget process, and then around the SWAps and the PAF, which was linked to conditionality with the introduction of

budget support. To this has been added the cross-sector dialogue around full GBS and the PRSC. Here we describe these overlapping spheres of dialogue and conditionality and their evolution.

Dialogue around the Consultative Budget Process

17. Donor involvement in the dialogue around the budget process started before the movement towards SWAps and General Budget Support. This dialogue about the budget has become increasingly important for development partners involved in all types of GBS. Dialogue takes place: at the sector level through sector working groups, and at the national level through the consultative budget process. The donor economists group coordinates the overall response of development partners during the budget process, whilst individual sector groups are involved at the sector level.

18. Development partners, and now also parliament, comment on the contents of the Budget Framework Paper (BFP) at the national Public Expenditure Review (PER) meeting held each May, and also respond to budget performance reports produced by the Ministry of Finance. Budgetary performance is also discussed at the sector level.

Sector Dialogue and Undertakings

19. The joint sectoral review processes established under SWAps are the focus of dialogue at a sectoral level. Sector donor groups include non-budget support as well as budget support donors, but are required to agree joint positions on issues relating to the sector. Those providing full GBS are entitled to take part in any sectoral dialogue they choose.

20. At sectoral reviews for sectors such as education, health, and water and sanitation, GOU agrees with donors various undertakings to be completed by the following sector review, alongside performance targets. Aide Memoires between sector stakeholders are signed at the end of each review setting out these agreed actions to be completed by the following review. Progress in achieving these undertakings is reviewed, and donors decide whether or not to disburse sector GBS funds at the following review, on the basis of progress. Many stakeholders emphasised that these undertakings were proposed by government and based on sector strategies, although this was not always evident.

21. Sector undertakings are often a combination of due process conditions based on the planning and budgeting cycle, and some based on policy actions and the achievement of agreed performance targets.

Dialogue and conditions around the PAF

22. When the PAF was formed in 1998, quarterly PAF meetings started, where government discussed performance in PAF programmes with donors, civil society and the press. Quarterly PAF reports, which were compilations of reports prepared by all sector ministries responsible for PAF programmes, were discussed at these meetings, and civil society and donors were invited to make comments. There was no donor–government dialogue around the PAF beyond the PAF quarterly meetings. These meetings proved too much of a burden for the MFPED to convene in addition to the consultative budget process. In 2002 it was decided that the PAF quarterly reports and review meetings should be stopped and be subsumed by budget performance reports and for an open budget review forum to be convened. The latter forum never took off, but the PRSC SC (SC) and SWAp forums have replaced the PAF meetings as the focus of dialogue.

23. Conditions relating to the PAF have always solely been based on GOU's own commitments to the PAF in terms of reporting and review. These commitments were streamlined in 2002 (see Table 3C.2), and the main commitments which remain relate to the size of the PAF in the MTEF and the commit to disburse at least 95% of the budget for PAF programmes.

Table 3C.2: GOU Commitments and Donor Conditions on the PAF

1998	2002 onwards
• Quarterly Reports. • Quarterly Review meetings. • Budget disbursements to PAF programmes in full. • Additionality of PAF resources to 1997/98 levels. • 5% of PAF funds being allocated and spent on improved monitoring and accountability. • Audit of PAF funds (which never happened, as it was later found appropriate to strengthen statutory audit of local governments). • Later, LG adherence to the PAF reporting process.	• Size of PAF Budget must not fall as a proportion of MTEF. • Releases to PAF guaranteed at 95% of budgeted amounts. • Continued funding for monitoring and accountability.
Source: Williamson and Canagarajah (2003).	

24. Whilst the PAF itself has become simpler, over time PAF GBS has aligned itself with full GBS/PRSC type conditionality, and therefore has become more complex. Aside from the notional earmarking there is little difference between the two, although there are some variations.

The PRSC Steering Committee, Policy Matrix and Prior Actions

25. Donor–government dialogue around full GBS takes place at the PRSC Steering Committee, which was formed in 2000, and chaired by the MFPED until 2004. This was a natural step, as the Ministry of Finance had historically managed this relationship, and was a strong institutional partner and driver of reforms; however representatives from key cross-cutting and sector ministries were also involved. The strong leadership of the MFPED, also meant that government was a robust counterpart in negotiation and design of the PRSC instrument. On the donor side, the World Bank and those donors providing or considering providing full General Budget Support took part; this often meant that the large numbers of donors outnumbered the GOU participants. The World Bank leads the PRSC negotiations. The WB Task Manager is based in Washington, which means that PRSC missions are fairly infrequent (every 3-6 months) but very large. Other donor representatives on the PRSC SC tend to be based in Uganda. (With effect from 2005, the WB Task Manager is now based in Kampala.)

26. The PRSC SC provided an opportunity for those involved in sectoral dialogue to engage in cross-sectoral issues. For example, in the original PRSC design it was acknowledged that many constraints facing the education sector were beyond the control of those within the sector. At the same time, the PRSC arrangements built on the forums which already existed and continued to operate, including the consultative budget process, Public Expenditure Reviews, and the Consultative Group.

27. The scope of the dialogue was guided by a PRSC policy matrix. This matrix, which was intended to be prepared by the MFPED, set out actions that the government planned to take over the medium term to improve public sector performance. In turn these would enable GOU to achieve the specific PRSC objectives. Importantly, the PRSC matrix was the first time that cross-cutting public sector and PFM reforms had been brought together in a single document. Early PRSC matrices were not particularly strategic, due to the absence of coherent public sector and PFM reform strategies; they were more an ad hoc compilation of different policy initiatives planned or ongoing in different areas. In addition the fact that the PRSC did not cover the whole of the PEAP from the outset represented the tension between the value of a comprehensive approach to poverty reduction, and the need to focus on a few areas to ensure that the new instrument was manageable and had an impact.

28. The PRSC was intended to strengthen the incentive for GOU to follow through with its reform programme. Therefore, although the PRSC matrix was largely a monitoring tool, it also highlighted *prior actions* which would act as triggers for the release of PRSC funding. Each year the Government of Uganda agrees these prior actions with development partners, and most other GBS programmes tie themselves to the successful completion of prior actions. In addition the conclusion of successful negotiation with the IMF on macroeconomic issues is a requirement for credit effectiveness (although, interestingly this is not an explicit prior action).

29. Actions in the PRSC matrix were originally a mixture of cross-sectoral and sector-specific actions. However, sectors with established review processes, such as health and education, objected to having additional actions imposed on them from the PRSC, and sector-specific actions in the PRSC matrix for those sectors were dropped. Instead the PRSC matrix requires that successful sectoral reviews had taken place, with donor dialogue happening at that level. (These so-called "one-liners" mean that the conditions linked to the PRSC may be undercounted. since actions agreed at sector level are nested into the PRSC.)

30. Despite this rationalisation of sector interventions, the numbers of actions in the PRSC matrix has grown and by PRSC 3 the number of actions had peaked at 71 up from 45 in PRSC 1 (see Table 3C.1 above). This increase was fuelled by donors' desire to ensure that actions they were concerned about featured in the matrix. There has always been a tension between the need for the PRSC, and the matrix, to reflect a strategic approach to the implementation of government policy and various funders' desires to ensure that their actions of interest are included.

31. The principle has been that GOU should nominate prior actions itself, not the donors. However donors have had a significant influence on the choice. There is consistency in many of the prior actions (summarised in Table 3C.3 below). Throughout the first four PRSCs there were prior actions relating to the agreement of the MTEF by donors, and successful sectoral reviews in health and education, and later water and sanitation. These concern GOU adherence to agreed policies and spending plans and so are central to the partnership between donors and GOU. Other issues that appear consistently relate to pay reform and tackling corruption. More recently, local government issues have been given an increasingly high profile in prior actions, due to their importance in the delivery of basic services.

32. It is worth noting two areas which, for different reasons, the PRSC matrix does not cover. Firstly there is no mention of macroeconomic issues. These have deliberately been left to the dialogue between GOU and the IMF. The second omission is (democratic) governance, which has become an increasing concern of bilateral donors, although the World Bank regards it as beyond its mandate.

33. To date GOU has managed to meet all prior actions, although not always on time. GOU has preferred to delay the disbursement of PRSC and other budget support funding rather than suffer reduced disbursements. Given the short description of these prior action in the PRSC documentation, and in response to concerns that GOU and donors had different interpretation of what the prior actions entailed, more detailed, separate descriptions for each prior action were introduced in 2004. The operational principles for PRSC prior actions were codified in 2005, and are reproduced as Annex 3E below.

Combinations and Variations

34. The PRSC Steering Committee is only the apex of the dialogue. There are also thematic donor groups on public financial management, public sector reform, decentralisation and governance. They are not limited to donors supporting GBS, although they tend to be more dominant. These groups meet more regularly than the PRSC SC, and are made up of representatives of donor agencies resident in Kampala. Sometimes, but not always, there are counterpart groups within government. For example there is a Public Expenditure Management Committee (PEMCOM), which is meant to coordinate PFM reform.

35. Although bilateral PGBS donors all subscribe to the PRSC process and sectoral undertakings, the way they focus their aid varies. Some bilateral agreements highlight specific issues such as procurement reform or public expenditure processes, in their agreements. In addition it is apparent that donors each have their own “red lines” – minimum conditions that the government must satisfy for budget support to continue. These conditions are distinct from the formal requirements of the PRSC matrices and are not fully spelt out: almost always they relate to governance issues, such as human rights, politics and security. Donors such as Ireland and the Netherlands have made some of these concerns explicit, writing certain governance benchmarks into their budget support agreements. Bilateral donors feel that they and their ministers need space to be able to make their own decisions with respect to the quantity and disbursement of budget support.

Table 3C.3: PRSC Prior Actions Over Time

PRSC1 – Completed March 2001	PRSC2 – Completed May 2002	PRSC3 – Completed July 2003	PRSC4 – Completed July 2004	PRSC5 – proposed
1. Agreement with IDA on the **MTEF** for 2001/02 to 2003/04 and execution of 2000/01 **budget** consistent with agreed allocations 2. **Monitoring of targets** for education, health, water and sanitation in the MTEF and BFP 3. Agreed the objectives and principles of a **pay reform strategy** consistent with the MTEF and public services performance 4. Issued new **procurement** regulations for Ministries, Departments and Agencies (MDAs) 5. Established a **coordination mechanism for guiding and monitoring reforms in PFM** 6. Tabled Leadership Code and IGG Statute Bills to Parliament 7. Satisfactory implementation of the **health and education sector reviews** 8. Launch national recruitment campaign of **15,000 new primary teachers** 9. Made interim **procurement arrangements for health sector** 10. Establish fully staffed **district water and sanitation teams** in half the districts 11. Settled debts worth UGS 5billion to the **NWSC** by MDAs	1. Agreement with donors in the PER on the **MTEF** for 2001/02 to 2003/04 and execution of first 2 Qs of 2001/02 **budge**t in line with agreed allocations 2. Cabinet has approved and published a **pay strategy** consistent with the MTEF and public service performance 3. MFPED has tabled a **procurement** bill 4. MFPED has tabled a new **public finance bill** **5.** Most Ministers and senior civil servants **have declared their assets to the IGG** **6.** Parliament has passed the **Leadership Code and IGG Statutes Bill** **7.** MAAIF has completed a draft institutional review of public funding of **agricultural research** 8. MFPED and MOWLE have agreed on financial and institutional arrangements for the implementation of the **Land Sector** Strategic Plan **9.** Satisfactory implementation of the **health and education sector reviews** 10. **MOWLE/DWD** has established fully staff technical support units (water and san) 11. **NWSC** has adopted a formula for periodic tariff adjustment	1. Agreement with donors in the PER on the **MTEF** for 2002/03 to 2004/05 and execution of first 2 Qs of 2002/03 **budge**t in line with agreed allocations 2. Ministries of Public Service and Finance agreed target salary adjustments in line with **pay reform** strategy and MTEF 3. Ministry of Public Service (MOPS) has submitted preliminary findings of cost efficiency and effectiveness of **social service delivery employment/staff utilisation** 4. Enactment of **Public Finance and Accountability Bill** 5. **IGG has issued letters of disciplinary action** to appointing authorities for ministers and senior civil servants who have failed to declare assets 6. MOWLE and Public Service commission have completed recruiting staff for the implementation of the **Land Sector** Strategic Plan **7.** Satisfactory implementation of the **health and education sector reviews** 8. MOPS has approved the **reorganisation of DWD** and initiated implementation 9. MFPED agreed with **NWSC** action plan to **settle arrears** and prevent new ones arising	1. Agreement with donors in the PER on the **MTEF** for 2003/04 to 2005/06 and execution of the 2003/04 **budget** for the full year in line with agreed allocations 2. Ministries of Public Service and Finance have effected salary adjustments in line with **pay reform** strategy and MTEF 3. **The IGG has completed the analysis of assets** and information from key categories of leaders, initiated asset verification, and investigated all complaints made by the public since November 2003 and has taken appropriate action 4. Ministry of **Local Government** has presented a **Procurement** Bill to Parliament which includes issues relating to the LG tender boards 5. MOPS and MFPED will have completed comprehensive draft policy paper on controlling the size of **public administration** and the efficiency and effectiveness of HRD 6. Satisfactory implementation of undertakings in **health, education and water and sanitation sector reviews**	1. Agreement with donors on the **MTEF** for 2004/05 to 2006/07 and execution of first 2 Qs of 2004/05 **budge**t in line with agreed allocations 2. Expenditure for **Public Administration** within budget allocations for 2004/05 3. Implementation of **national anti corruption action plan** commences 4. **IGG verifies asset declarations** of Ministers and appropriate action is taken by relevant authorities 5. Ministries of Finance and Public Service jointly commit to an **updated pay reform strategy** and target salary adjustments for the medium term 6. Ministry of Finance drafts a revised **audit bill** to ensure adequate operational independence for the Auditor General 7. Revised **Local Government Bill** tabled to parliament 8. Increased alignment of relevant ministries' budget allocations to **PMA** review undertakings 9. Satisfactory implementation of undertakings in **health, education and water and sanitation sector reviews**

Recent Evolution

36. In 2004 the chair of the PRSC SC was moved from MFPED to the Office of the Prime Minister (OPM), as it was felt that it was better placed to coordinate the implementation of the Government's reform programme, and the PEAP. The OPM is attempting to put in place more coherent policy formulation and monitoring structures. This is an important step in putting government at the centre of the reform programme. However the Office of the Prime Minister has had limited experience of managing negotiations with donors, or coordinating policy formulation processes. The possible benefits and risks of this new arrangements are important for the future of PGBS. On the World Bank side, from 2005 the PRSC task manager is now based in Kampala instead of Washington, which should allow a more continuous dialogue.

37. Budget support donors have also resolved to move away from a separate PRSC matrix, and the PEAP 3 implementation matrix will become the basis of GOU–donor dialogue. This means that the scope of future full GBS operation will be based solely on the PEAP; at the same time it has broadened substantially the scope for budget support dialogue. The April 2005 draft of the Policy Matrix had 201 specific actions for 2005. The dialogue around the PEAP matrix will need to be carefully managed if it is not to become even more unwieldy.

Harmonisation and Alignment

38. An important aspect of GBS is the opportunity it presents to align donor support with government strategies, processes and systems, and for donors to harmonise their approaches with each other.

Alignment with Government Strategies

39. GBS in Uganda started from a premise of alignment with the PEAP. As alluded to earlier the PRSC chose not to support the PEAP in its entirety, but to be selective in the areas of government reform that it could support, however those areas were derived from the PEAP. The PEAP partnership principles have stressed alignment of all aid modalities with GOU strategies.

Alignment with Government Systems and Processes

40. Full GBS instruments have used government systems for reporting and monitoring. Although the government had made strides in improving monitoring and evaluation, and used information more in decision making in 2001, those systems were weak and poorly coordinated. Donors have provided support to address weaknesses and gaps. For example GOU had weak capacity to report on the status of poverty and progress against PEAP objectives. The Poverty Monitoring Unit within the Ministry of Finance, financed by DFID, has provided support in preparing PEAP progress reports and Poverty Status Reports. The introduction of full GBS did not seek to create new mechanisms for monitoring sector performance, choosing to rely on existing sectoral arrangements. The only additional institutional arrangements that were added due to the introduction of full GBS was that of the PRSC SC, and the Government of Uganda was required to report quarterly on progress against undertakings in the PRSC Matrix.

41. GBS donors used existing sectoral review processes as the basis of sector monitoring, and their support has been integrated into sector medium term budget frameworks. Meanwhile the PAF-specific reporting requirements, initially established by the Ministry of Finance were streamlined and integrated within the budget reporting process in 2001/02.

42. However there are gaps in the alignment process that we shall see has an impact on government systems. In certain circumstances donors have demanded additionality of their sector GBS to sector budget allocations, rather than respecting the outcome of the budget process. Whilst the government of Uganda is running an MTEF, donor commitments are still made on an annual basis.

Harmonisation among donors

43. In many ways alignment is a relatively automatic outcome of full GBS, and to a lesser extent sector GBS. Harmonisation is more difficult, and has been somewhat less successful. Most donors have signed up to the partnership principles, and take part in the PRSC discussions, agreeing to prior actions, and using government reporting systems. Donors are working well together in sector and thematic groups, and are able, more often than not, to agree common positions on policy issues. In addition some full GBS donors have delegated other donors to represent them in dialogue, or have withdrawn from some sector dialogue completely. However there is a distinct lack of harmonisation of disbursement procedures. This reflects donors' differing administrative procedures, but also the fact that they have different red lines, and feel that they must be able to make independent decisions when it comes to disbursement, even if they can agree common policy positions.

44. Hence the different responses of donors to "hiccups" in the relationship between government and the donor community. For example, some donors chose to cut disbursements of GBS due to over-spending on defence relative to the budget, and a lack of progress in the political governance arena; another response was to reclassify full GBS as PAF GBS, whilst other donors maintained disbursements. The Ministry of Finance has been pushing for a more coordinated approach to disbursements of GBS.

Technical Assistance and Capacity Building

45. Little new technical assistance and capacity building (TA/CB) is explicitly mentioned in unearmarked GBS programme documentation itself. However both technical assistance and capacity building has always been very much part of the plans of development partners who provide GBS. Many donors therefore provide parallel technical assistance and capacity-building projects or funds. For example the PRSC programme document explicitly mentions that "IDA expects to continue with self-standing capacity-building projects",[4] and the WB continued to provide technical support through existing mechanisms to PER processes. DFID has a strategic fund whose purpose is to "To provide one-year financial or technical support to increase the effectiveness of budget support, by targeting the strategic dialogue associated with it" ,[5] and other donors often provide flexible short term technical assistance support to policy processes. Often donors use funds to hire consultants or short term technical assistants to provide support to government in carrying out actions identified in the PRSC matrix.

46. Uganda has not yet developed a comprehensive capacity-building strategy or plan to which capacity-building support can be linked, but this is an intended activity set out in PEAP 3. Within the various sectoral strategies there are provisions for capacity building. Capacity building is therefore provided in the context of ongoing sectoral and cross-cutting programmes and coordination mechanisms. To the extent that sectoral strategies are aligned with the PEAP it can be said that capacity building is also aligned.

[4] Page 25, Presidents Report on PRSC1, World Bank 2001
[5] Strategic fund PCR

PFM and Cross-Cutting Policy and Reform

47. The GBS design has always had a relatively strong grounding in GOU's PFM processes, and has taken into account PFM capacity and the fiduciary risks associated with providing budget support in Uganda. For example, the first PRSC took into account the findings of the Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Review (CPAR) carried out by the World Bank, and, among others, DFID has carried out fiduciary risk assessments alongside its budget support. In addition the PRSC has been able to build on a strong budget cycle and Public Expenditure Review process.

48. Prior to the introduction of GBS, the MFPED had been making good use of technical assistance from the EC, World Bank and DFID to support the improvement of mainstream PFM. What GBS did was strengthen the link between this TA and the policy dialogue on PFM reforms in the context of the PRSC. In 1999 the World Bank initiated a major PFM reform project, the Second Economic and Financial Management Programme (EFMP II), which aimed to provide technical assistance, and capacity building, alongside infrastructure support towards PFM. DFID also is supporting a Financial Accountability Programme (FAP), and activities the EFMP II and FAP are supporting have been integral to the policy dialogue. Although these major PFM capacity-building programmes are not explicitly part of GBS programmes, the PRSC dialogue and matrix has allowed the implementation of these programmes to be more strongly linked to GOU's reform programme. In addition donors have provided flexible support to various discrete PFM activities and capacity building.

49. However the Government until recently has lacked an integrated strategy to improve PFM, and financial management reforms lagged behind budgetary reforms (see Annex 4B for more detail). PRSC 1 included a prior action which required "Establishing a coordination mechanism for guiding and monitoring reforms in PFM", acknowledging the need for greater coordination in the ongoing reforms to PFM. However it was only when the 2004 Country Integrated Fiduciary Assessment (CIFA) was carried out, that an overarching action plan for PFM reform was written, that could form a basis for more coherent support to PFM capacity. The PRSC matrix has, however, incorporated several measures to improve PFM capacity, largely drawing from ongoing initiatives, which often are donor funded.

50. Local Government Financial Management has been given a higher profile over time. DFID and the World Bank are providing TA and capacity-building support through the Decentralisation Support Programme and the Local Government Development Programme (LGDP). The EC is also planning capacity-building support. Donors outside the GBS arrangements, including USAID, are also providing valuable support to mainstream PFM systems. In addition development partners give technical assistance to other arenas of governance such as public sector reform and some support has also been provided to the budget office in Parliament. However this, again, is not necessarily an explicit part of any budget support programme.

51. Although the PRSC leaves the dialogue on macroeconomic issues as the domain of the Government's dialogue with the IMF, both the EC and DFID provide long term macroeconomic technical assistance in the Ministry of Finance. Beyond this there is little capacity-building support from mainstream GBS donors.

Sector Policy and Service Delivery

52. Most sector technical assistance and capacity building is not built into budget support agreements either. As with full GBS, sector donors do provide technical assistance and capacity-building projects, or support on-budget institutional capacity-building measures, which

are integrated into strategic plans. Whilst the health and water sectors have used a lot of long term technical assistance, the Ministry of Education has expressed a preference not to have long term technical assistance, which they felt undermines their core capacity. In most sectors development partners are willing to fund off-budget consultancy studies.

53. However some TA/CB is explicitly built into sectoral budget support agreements (e.g. Belgium for health, World Bank for LGDP and agricultural extension). The largest example of capacity building linked to notionally earmarked General Budget Support is the Local Government Development Programme, which combines a technical assistance and capacity-building project for the Ministry of Local Government aimed at developing and improving local government systems, with budget support funds for local governments: the funds are notionally earmarked to a local development grant and a capacity-building grant. (See Annex 6 for a full review of decentralisation and PGBS.)

Annex 3D: Partnership Principles

Partnership Principles between Government of Uganda and its Development Partners

MFPED, September 2003

Section One: General Principles

1. The Poverty Eradication Action Plan (PEAP) identifies the development objectives for Government and its development partners. Effectively linking donor support with the PEAP is the main rationale for setting out these Partnership Principles. These principles apply to public assistance.

2. The delivery of financial assistance (aid) by development partners must be fully compatible with the national budget process and with Government ownership of the budget.

3. Government will ensure transparency in the budget process by remaining committed to including all stakeholders in its preparation and in monitoring budget execution. The budget process will work through dialogue with all stakeholders.

4. Development partners will participate in the process of formulating Government budgets. However, donor views on the budget should be expressed collectively at the appropriate forums in the budget process (budget workshops, sector meetings, Public Expenditure Reviews, etc). Individual donors should not attempt to influence budget allocations outside these forums or by using their own aid as a lever.

5. Major changes in the budget will only be taken after prior consultation with all partners, as predictability is the key for development partners when deciding on their preferred modalities of support to Uganda. Similarly, development partners will communicate promptly to the Government any significant changes in the level of their support to the budget.

Section Two: Government's Preferred Modalities of Support from Development Partners

6. The modalities of donor support are important because different aid modalities are not equally compatible with efficient budget planning and management and national ownership of the budget.

7. The Government's ranking of donor support modalities, in descending order of preference, is as follows:[6]

   1. General budget support
   2. Budget support earmarked to the Poverty Action Fund
   3. Sector budget support
   4. Project aid.

[6] In the case of the World Bank, General Budget Support, budget support earmarked to the PAF and sector budget support are referred to as balance of payments support.

8. Government's preferred modality is General Budget Support, because this provides the Government with the greatest flexibility with which to deliver public services efficiently and to implement the PEAP. General budget support is also fully compatible with the Government's budget and accounting procedures.

9. Government recognizes that some development partners do not provide General Budget Support. In such cases Government's preferred option is budget support to the Poverty Action Fund (PAF). Budget support to the PAF directly supports the PEAP through expenditures covered by the PAF. Government is committed to increasing PAF expenditures as a share of the overall discretionary GOU budget, and to protect PAF expenditures from cuts arising from resource shortfalls or supplementary expenditure demands from other sectors.

10. Sector budget support is acceptable to Government if it meets the following conditions:

- i) Sector wide approaches (SWAps) and sector development plans are in place in the sector being supported, and;

- ii) the support is mutually agreed upon by the line ministry, MFPED and the donor through the yearly consultative budget process.

11. Government cannot guarantee that sector budget support will increase the relevant sector's expenditure ceiling above what would have been otherwise provided in the Medium Term Expenditure Framework (MTEF). The level of any sector's expenditure ceiling cannot be determined by the amount of sector budget support promised to that sector. Government must control aggregate spending by the Government, and if one sector ceiling is increased owing to the receipt of sector budget support this will inevitably mean that cuts must be made to the spending ceilings of other sectors. This in turn can lead to a sectoral composition of expenditure which is not optimal from the Government's point of view, nor indeed from the point of view of the majority of donors.

12. Sector budget support is best provided "notionally", allowing the development partners influence through the Sector Working Group over issues pertinent to the sector, but the donor should not attach any "additionality" conditionalities, because this would violate the principles set out in paras 9 and 21.

13. Sector budget support should be provided straight into the Consolidated Fund thereby considerably simplifying budget execution, accounting and reporting procedures.

14. Project aid or technical assistance can provide benefits such as the transfer of skills and capacity development. Additionally it can be an important source of support to meet critical humanitarian needs. To maximise the benefits of this support, development partners will ensure that their support is integrated within the sector wide approaches where these exist and will work with the MFPED to ensure that their support is integrated into the MTEF.

Section Three: Undertakings by Government of Uganda

15. The Government recognizes that the development partner's willingness to give budget support depends on their confidence in the transparency, predictability and efficiency of Government budget processes and in the public servants in charge of these processes. To this end, the Government will:

- Consult with stakeholders annually on strategic allocations in the budget and implement the budget in a manner consistent with the agreed allocations.
- Consult in advance with the donor partners on major envisaged changes to budget allocations during the financial year.
- Ensure transparency and efficiency in public budgeting and spending with the aim of fulfilling PEAP and PRSC targets.
- Improve the quality of financial management systems at both central and local government levels.
- Strengthen the audit function by enhancing the role, capacity and independence of the Office of the Auditor General.
- Improve procurement processes both at the central and local government levels to ensure better value for money.
- Implement the public service reform, including pay reform which is consistent with improving delivery of public services.

16. Corruption presents a tax on the effectiveness of public services. Government will, therefore, aggressively fight corruption. To this end Government will:

- Strengthen the key anti-corruption institutions such as the IGG and the Directorate of Ethics and Integrity.
- Encourage the participation of civil society and the private sector in fighting corruption, especially by increasing public access to Government information.
- Enhance the legal framework for fighting corruption.
- Prosecute perpetrators and strengthen efforts to recover embezzled funds.

17. The Government is determined to reduce its dependence on donor aid over time. Accordingly, it is committed to increase domestic revenue mobilization through systematic enforcement of tax legislation, improved tax administration and collection, new revenue measures as appropriate, and expenditure restraint.

18. The Government recognizes the importance of a strong civil society and private sector institutions. The Government will enhance the role of these institutions in policy-making and monitoring and evaluation.

Section Four: Reflecting Development Assistance in the Budget

19. All development assistance to Central Government should be included in the budget estimates and MTEF.

20. Data on development assistance for each fiscal year should be provided to the Ministry of Finance by October of the preceding fiscal year. As far as is possible, development partners should provide three year rolling projections of all budget and project support.

21. Development partners should also assist the Ministry of Finance to compile accurate and timely budget outturn data by reporting to the Ministry of Finance the disbursements to each project that they are funding on a quarterly basis.

22. Sectors will have to budget within an overall ceiling set by the Government which will include all donor projects. This will be a hard budget ceiling, implying that an increased level of project support expenditures will have to be matched by lower GOU budget expenditures.

Section Five: Global Funds

23. Any financial assistance received from Global Funds will be utilised as sector budget support or project aid and integrated into the budget in line with the principles set out in sections one, two, four, and six.

Section Six: Working More Effectively at the Sector Level

24. Partners should seek to work in fewer sectors and focus their expertise in sectors where they have a comparative advantage.

25. The composition of the Sector Working Group (SWG) should include all relevant Government stakeholders, especially as service delivery becomes increasingly decentralised (e.g. Ministry of Local Government plus the relevant sector ministry). Other stakeholders (e.g. civil society and non-Government providers of services) should also be included. All donor partners, whatever the modality of their assistance, should also be represented (possibly as a silent partner) in a single SWG that focuses on policy, strategy, prioritising expenditures, monitoring and evaluation, and service delivery.

26. Development partners participating in the sector working group (SWG) should endeavour to communicate with Government through a 'lead donor' and with a common voice.

27. Government reporting mechanisms should be strengthened so that they can be adopted by development partners. As this is accomplished, development partners should seek to utilise the Government reporting systems and not demand separate reporting mechanisms for their own funds. All stakeholders should adopt a common set of outcome indicators for monitoring progress at the sector level.

28. Joint financing committees should only address administrative issues related to the basket. All resources provided by development partners must be reflected in the Government budget. Joint financing reviews, although necessary for accountability, should become a smaller component of a larger review.

29. Sector expenditure ceilings must be determined by the Government through the budget process, independently of any sector financing and in particular, independently of any "additional" sector funding made available or promised by development partners.

30. The SWG should identify, cost and rank sector spending priorities. Only the highest ranking spending priorities, which have been clearly identified in sector investment/expenditure plans, should be undertaken, either through the GOU budget or as donor funded projects. Development partners should not attempt to influence Line Ministries to undertake expenditures which have not been identified as priorities by the SWG, using their own sector support or project aid as a lever.

31. A calendar of key annual processes (Annex 2) should guide the work of sectors to ensure appropriate linkages to PER/MTEF, PEAP and the poverty monitoring and evaluation strategy (PMES).

32. Sector Working Groups will become fully engaged in Public Expenditure Review and budget work. They will establish mechanisms to link budget inputs to service delivery through the PER and Poverty Monitoring and Evaluation Strategy (PMES). The SWGs activities will also be linked to other processes which impact on service delivery, such as decentralisation and the Local Government Reform Programme.

Section Seven: Joint Sector Reviews/Missions

33. Joint missions are preferable to bilateral consultations. The timing and format of reviews must complement key processes such as the budget exercise, PER and PRSC Review, and will be open to all stakeholders.

34. A sector review should provide the single opportunity for all development partners to comprehensively review policy, strategy, performance and capacity needs.

35. A lead donor approach can reduce the transaction costs of both development partners and the Government.

36. Joint reviews must be open to all stakeholders. This should be reflected in the Terms of Reference for the joint review.

37. The outcomes of sector reviews should feed into the overall PRSC review.

Annex 3E: Principles for PRSC Prior Actions

Source: World Bank 2005 Program Document for the Fifth PRSC Operation, Annex IV, December 2005

Principles for Prior Actions in the Uganda Poverty Reduction Strategy Support Credit (PRSC) Programs. The following principles have been developed during PRSC4 to guide the development of prior actions for the PRSC programs:

1. About the Principles

These principles concern the establishment of Prior Actions (conditions) for disbursement of the World Bank-supported PRSCs in Uganda. The principles are intended to be complementary and subordinate to the agreed *"Partnership Principles between Government of Uganda and its Development Partners",* Kampala September 2003.

2. The Poverty Reduction Support Credit (PRSC)

(a) The PRSC is a core operation to implement the objectives of Uganda's Poverty Eradication Action Plan/Poverty Reduction Strategy Paper (PEAP/PRSP), and the Bank Group's Country Assistance Strategy (CAS).

(b) b. The PRSCs are sequential annual credits, and each PRSC is seen as an annual step in a three-year medium-term reform program.

3. Prior Actions

(a) Each PRSC is based on a set of conditions ("prior actions") that the government fulfils before the grant/credit is presented to the World Bank Board. These prior actions are based on shared expectations between Government of Uganda (GOU), the World Bank (WB), and other development partners.

(b) Prior actions should be based upon policy dialogue, and aligned with Uganda's Poverty Eradication Action Plan and country assistance priorities. Prior actions should normally correspond to all the major reform areas (pillars) of the Poverty Eradication Action Program. The starting point for discussion is the set of prior actions of the preceding PRSC.

(c) The flexibility inherent in the PRSC comes not from defining vague or easily-met prior actions, but from agreeing on specific and monitorable milestones and then measuring progress against them, with reasoned judgments allowing for disciplined adaptation.

(d) Agreement on prior actions is reached between GOU, the Bank, and other development partners shortly after pre-appraisal and before appraisal. Prior actions are at this stage considered binding, but are in exceptional circumstances adaptable in the face of uncertainties inside and outside of the program.

(e) Completion of the prior actions is a condition for proceeding to the World Bank Board for approval of the grant/credit.

(f) When prior actions are not met by negotiations, there are three alternatives: (i) reduce support; (delay program; and (iii) release Credit in tranches.

4. Anticipated Prior Actions

(a) Each PRSC also includes a notional set of tentative prior actions that are presented in the program documentation. The tentative prior actions are not binding for the next PRSC.

(b) As one PRSC becomes effective, and the preparation of the next commences, the tentative actions identified under the first help shape and form the basis for preparation and agreement of prior actions under the next. It is important for the reform program to have a predictable and sustained approach.

(c) The anticipated prior actions should normally be discussed, and agreement on broad areas to be covered should be reached at the pre-appraisal of the preceding PRSC.

(d) Exact area and precise wording of the anticipated prior actions should be agreed during appraisal and negotiations of the preceding PRSC.

(e) Where tentative prior actions may have to be revised, the fault may lie in a poor choice of tentative actions, unexpectedly weak execution of elements of the reform program, faster than expected implementation of elements of the reform program, or changing circumstances outside the reform program.

ANNEX 4: PUBLIC EXPENDITURE AND PUBLIC FINANCE MANAGEMENT

Annex 4A: Efficiency of Public Expenditure

Introduction

1. This Annex provides an overview of trends and reviews different dimensions of efficiency in public expenditure. Uganda's public revenues and expenditures have grown substantially over the evaluation period. Public expenditures have increased in real terms by 240% over the last 10 years, but the increase in public expenditure has been far more rapid since 1998/99, when it has averaged 13% p.a., in the context of buoyant aid flows as well as domestic revenues. This was over double the rate (6% p.a.) between 1994/95 and 1997/98 (see Table 4A.1). A central aim of PGBS as a modality is to increase the efficiency of public expenditures; we consider both allocative and operational efficiency. The effectiveness of public expenditure is considered in the main report, particularly in Chapter B7 on service delivery.

Allocative Efficiency

Alignment of expenditure with objectives

2. In the context of rising expenditures the Government of Uganda has been able to reorient budget expenditures towards PEAP priorities protected under the PAF from 19% in 1997/98 to nearly 36% of discretionary GOU expenditures[7] in 2002/03, a significant shift in resource allocation over a relatively short period of time (see Figure 4A.1), which has since been maintained. Thus, on the face of it, the Government of Uganda has been able to achieve an unprecedented shift in the relative allocation of resources towards its objectives as stipulated in the PEAP, and in this sense increase the aggregate efficiency of public expenditures.

3. There is a second level at which GOU budget allocations, and expenditures have been increasingly efficient. The share of sector budgets allocated to primary levels of delivery, which are likely to be the most effective way achieving government's poverty reduction objectives, has increased. This can be illustrated by the significant reorientations of GOU expenditures within PAF sectors, (excluding donor projects) which are shown in Table 4A.2. The shift is most marked in roads and health, where the share of sector budgets allocated to PEAP priorities of rural roads and primary health care have increased significantly. In addition the funding to local governments has increased substantially.

4. However, once one includes donor projects in sectors such as roads and agriculture, which are dominated by projects, a lower proportion of funding is actually spend on primary service delivery. This can also be illustrated by the composition of donor project funding to the health sector shown in Figure A4.2, where relatively little is targeting the improvement of primary delivery through the minimum healthcare package in the Health Sector Strategic Plan (HSSP).

[7] Excluding donor projects and interest payments

Table 4A.1: Uganda Budget Framework 1994/95 to 2003/04

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01		2001/02		2002/03		2003/04		2004/05		*2000/01-2004/5*
UGS Billion, 2003/04 prices	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	*Average deviation*
Revenue and Grants	**1,137**	**1,232**	**1,358**	**1,442**	**1,735**	**1,816**	**2,064**	**2,031**	**2,425**	**2,184**	**2,408**	**2,363**	**2,733**	**2,908**	**2,634**	**2,935**	***6.2%***
Domestic revenue	**751**	**852**	**953**	**963**	**1,143**	**1,147**	**1,241**	**1,178**	**1,442**	**1,391**	**1,504**	**1,505**	**1,691**	**1,669**	**1,735**	**1,776**	***2.5%***
URA Revenue	737	836	937	961	1,125	1,111	1,209	1,169	1,397	1,345	1,461	1,479	1,655	1,642	1,660	1,743	*2.8%*
Non Tax Revenue	14	16	15	3	18	37	32	9	45	46	43	26	36	27	75	33	*38.4%*
Grants	**386**	**378**	**404**	**479**	**593**	**669**	**824**	**853**	**983**	**793**	**904**	**858**	**1,043**	**1,239**	**899**	**1,159**	***15.1%***
Programme grants excluding HIPC				233	141	193	275	254	386	248	343	301	342	644	318	633	*48.6%*
Project grants				246	398	379	397	456	434	389	398	379	505	425	448	420	*10.4%*
HIPC debt relief				0	53	97	152	143	163	155	163	178	196	170	133	106	*10.7%*
Total Expenditure	**1,349**	**1,387**	**1,476**	**1,540**	**2,021**	**2,309**	**2,425**	**2,285**	**2,960**	**2,790**	**2,830**	**2,803**	**3,108**	**3,068**	**3,163**	**2,975**	***3.9%***
Recurrent expenditure	774	831	873	879	1,039	1,110	1,245	1,218	1,557	1,574	1,613	1,663	1,737	1,890	1,811	1,795	*3.2%*
Wages/salaries	199	230	289	308	410	425	516	472	605	601	658	643	673	683	695	702	*2.8%*
Other goods, services & transfers	496	521	498	532	503	493	522	529	662	681	689	733	720	819	881	884	*4.9%*
Interest Payments	79	81	86	39	57	108	68	122	172	157	152	181	228	261	235	208	*26.7%*
Interest on external debt				40	30	75	68	75	69	70	75	67	71	68	59	57	*6.1%*
Interest on domestic debt				35	57	34	49	64	103	100	77	124	157	193	176	151	*26.4%*
Development expenditure	565	535	549	604	840	929	1,057	954	1,287	1,083	1,190	1,096	1,355	1,154	1,301	1,113	*12.6%*
Donor Projects	455	449	418	492	663	631	661	584	723	567	664	603	785	702	849	672	*14.8%*
Domestic	110	86	130	112	177	298	395	370	564	515	526	493	570	451	452	442	*8.9%*
Net Lending and Investment	17	4	3	23	3	112	5	-28	-31	5	-25	-13	-29	-23	1	1	*87.7%*
Domestic Arrears Payment	-7	17	52	35	140	158	118	141	146	128	52	57	45	47	50	65	*15.2%*
DEFICIT (including grants)	**-212**	**-155**	**-118**	**-98**	**-286**	**-493**	**-360**	**-254**	**-535**	**-606**	**-422**	**-440**	**-375**	**-160**	**-529**	**-40**	***39.4%***
DEFICIT (excluding grants)	-598	-535	-523	-577	-878	-1,162	-1,184	-1,107	-1,517	-1,399	-1,326	-1,298	-1,417	-1,399	-1,428	-1,199	*6.8%*
Financing	**203**	**140**	**118**	**40**	**146**	**335**	**243**	**254**	**424**	**606**	**605**	**504**	**422**	**160**	**529**	**40**	***43.8%***
External Financing (net)	344	227	199	213	253	228	442	327	650	518	508	506	320	310	442	115	*24.8%*
Programmme loans				61	109	67	318	160	432	387	359	378	200	59	175	10	*46.0%*
Project loan				246	265	253	265	228	289	201	254	228	280	370	414	248	*25.4%*
Amortization				-94	-121	-130	-141	-127	-112	-133	-158	-153	-181	-150	-158	-151	*10.5%*
Domestic Financing (net)	-141	-87	-81	-173	-106	108	-200	-74	-226	88	97	-2	102	-150	87	-74	*66.3%*

Table 4A.2: Uganda Sector and Poverty Action Fund Expenditures (excluding donor projects)

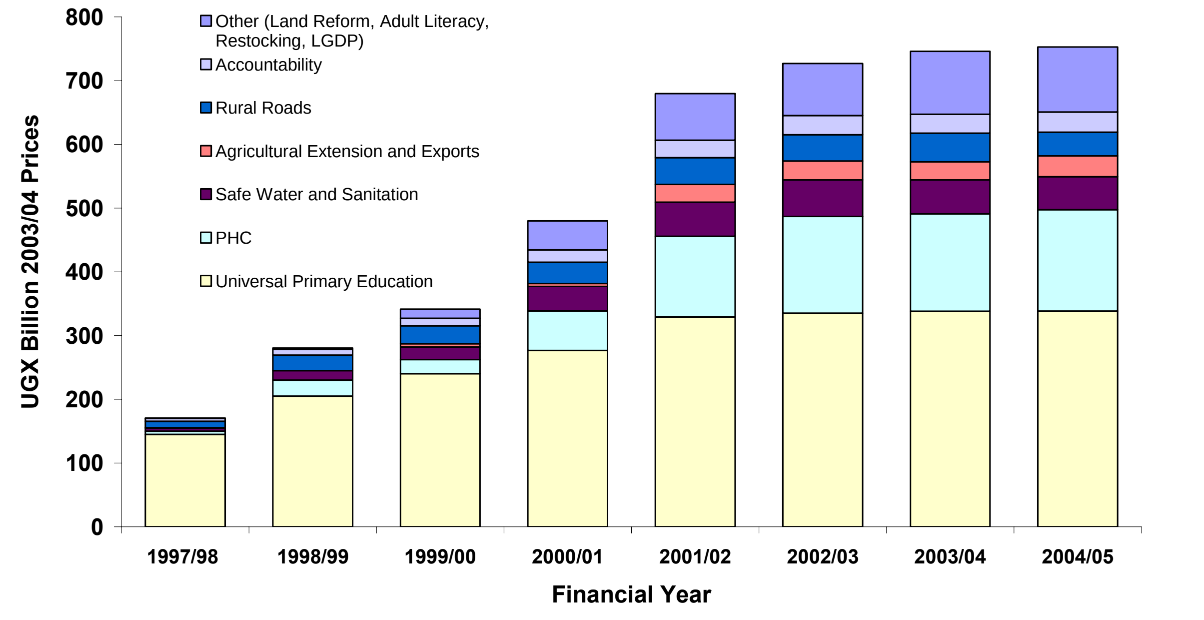
SECTOR EXPENDITURE (Excl. Donor Projects)	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**
Security	145.5	244.2	216.9	226.7	263.9	311.7	335.7	345.1
Roads and Works	48.2	75.8	114.3	139.0	173.8	162.7	146.5	149.0
Agriculture	11.1	11.7	20.6	23.7	47.0	51.6	45.9	50.1
Education	256.0	330.7	369.2	405.6	505.8	516.2	517.3	529.9
Health	63.5	79.9	90.7	119.7	180.7	199.3	207.8	202.6
Water	4.8	15.3	20.9	39.6	54.4	57.9	53.2	51.7
Justice Law and Order	87.8	88.3	102.8	106.2	141.2	152.9	197.0	164.2
Accountability	4.9	7.5	11.5	17.7	23.8	27.4	80.6	66.6
Economic Functions and Social Services	40.5	33.7	64.6	81.6	135.8	159.5	123.8	108.5
Public Administration	245.7	254.8	285.5	328.0	405.8	385.4	*371.3*	*406.9*
Interest Payments	75.2	86.7	107.6	138.8	170.2	189.8	248.2	204.3
GRAND TOTAL	**983.3**	**1,228.7**	**1,404.6**	**1,626.7**	**2,102.7**	**2,214.3**	**2,327.2**	**2,278.9**
o/w Central Gov't	*553.6*	*749.2*	*813.7*	*858.1*	*1,079.7*	*1,194.0*	*1,178.9*	*1,158.3*
o/w Local Government	*271.4*	*347.1*	*389.0*	*491.9*	*677.8*	*687.7*	*724.2*	*739.4*
Local Government as % Expenditure (excl Interest)	*30%*	*30%*	*30%*	*33%*	*35%*	*34%*	*35%*	*36%*
Interest as % Total Expenditure	*8%*	*7%*	*8%*	*9%*	*8%*	*9%*	*11%*	*9%*

POVERTY ACTION FUND EXPENDITURE	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**
Universal Primary Education	144.9	205.0	240.3	276.5	329.1	335.3	338.0	338.5
PHC	5.2	25.0	21.8	62.2	126.6	151.6	153.0	158.8
Safe Water and Sanitation	4.7	14.8	19.9	38.4	53.6	57.1	53.2	51.8
Agricultural Extension and Exports	0.7	0.3	5.1	4.4	27.8	30.0	28.6	32.9
Rural Roads	10.1	24.3	27.9	33.5	42.1	40.8	45.0	37.0
Accountability	4.5	9.2	12.0	19.1	27.3	30.5	29.4	31.6
Other (Land Reform, Adult Literacy, Restocking, LGDP)	0.6	1.6	14.2	45.6	73.0	81.4	98.9	102.0
GRAND TOTAL	**170.6**	**280.2**	**341.3**	**479.7**	**679.5**	**726.7**	**745.9**	**752.7**
PAF as % of Expenditure Less Interest Payments	*19%*	*25%*	*26%*	*32%*	*35%*	*36%*	*36%*	*36%*
PAF as % of Total Expenditure	*17%*	*23%*	*24%*	*29%*	*32%*	*33%*	*32%*	*33%*

UGS Billion, 2003/04 prices

Source: Ministry of Finance

Figure 4A.1: Expanding Poverty Action Fund Expenditures

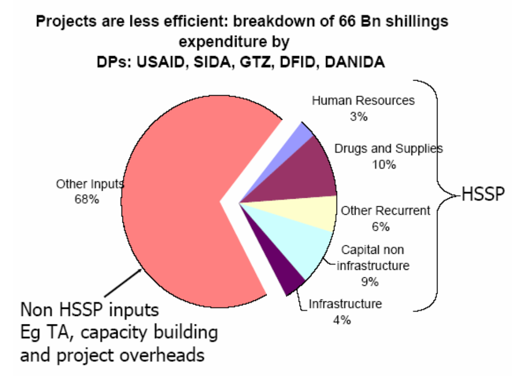


PAF Reorienting National and Sector Allocations towards the PEAP

		(Pre PAF) 1997/98	2000/01	2003/04
PAF Expenditure as a % of the National Budget (excl Interest)		19%	32%	36%
PAF expenditure as a % of GOU sector expenditures	Roads	21%	24%	31%
	Agriculture	6%	18%	62%
	Health	8%	52%	74%
	Education	57%	68%	65%
	Water	97%	97%	100%

Source: Ministry of Finance

Figure 4A.2: Project Aid Not aligned to HSSP



Source: Angemi (2005), cited Ministry of Health

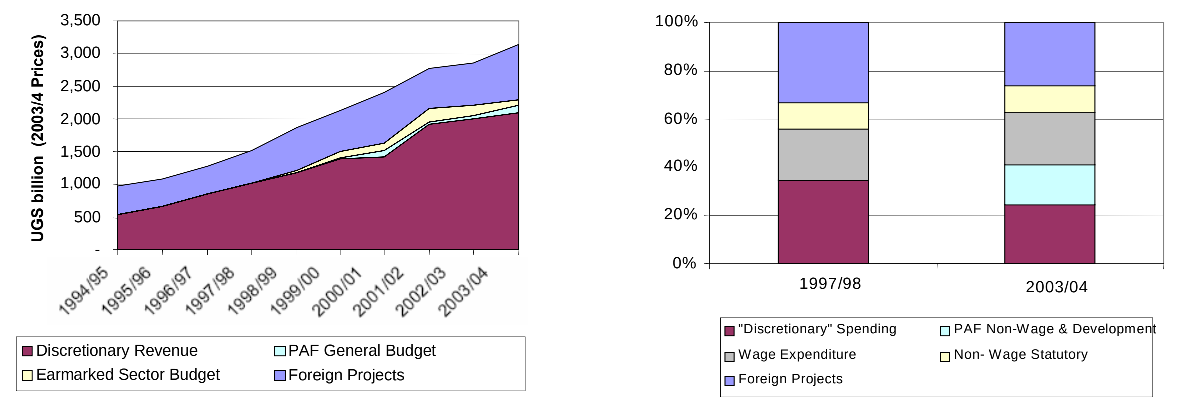
Discretionary Resources

5. One of the main arguments for budget support is that it increases the discretionary resources available to GOU, thereby increasing the scope for matching expenditures to objectives and maximising efficiency in the use of resources. The major reorientation of expenditures that followed the introduction of the PAF and the first flows of GBS vindicates this argument. However, it also appears that more recently GOU's effective discretion has significantly shrunk. This is due partly to the inevitable consequences of earlier decisions: the increase in expenditures on basic services has locked in certain expenditure commitments, particularly to salaries, reducing the scope for further reallocations. But some additional rigidities are built into the commitments about PAF funding.

6. There are different degrees of discretion (de jure and de facto) in resource allocation. Expenditures that are statutory legal obligations (notably debt-service) are classed as non-discretionary, although in practice governments may not honour the commitment. There are other components of the budget, most notably salaries, that are not in practice treated as discretionary (although there is more discretion to shift such expenditures in the long term than the short term). Agreements to earmark donor funds to particular uses further limits government discretion (although the practical effect varies: if the earmarking is to an expenditure that government would anyway have undertaken, effective discretion is not reduced – the funds are fungible). GBS is particularly meant to relieve the inefficiencies caused by the fragmentation of budgets through project earmarking.

7. Taking a narrow view of non-discretionary expenditure, in real terms in 2003/04 GOU had four times the discretionary resources it had in 1994/95, and the proportion had increased from 55% to 67% of the budget (see Figure 4A.3). However, there is concern that practical levels of flexibility in making expenditure allocations are being reduced by a combination of increased statutory obligations (including interest payments) and wages. In addition, the GOU commitments relating to the PAF are a further limit on flexibility, as the PAF sectors have remained a static set of priorities since their inception. From this practical perspective, discretionary resources have actually fallen from 35% in 1997/98 to 25% of the budget in 2003/04. This will make future reallocations more difficult, especially as overall increases in resources are not likely to increase as fast as they have done in the preceding decade.

Figure 4A.3: Increasing Flexibility in the Budget?



Source: Ministry of Finance.

8. The guarantee of funding to PAF sectors inevitably disadvantages other sectors in the budgeting process. If PAF expenditures were a complete response to poverty reduction priorities then these rigidities would not necessarily be a problem, but the definition of pro-poor in the PAF is narrow, and government has shown that the PAF is not the limit of government priorities. Increasingly it is acknowledging the need to expand allocations of the budget which may address poverty more indirectly through assisting private sector growth, however the rigidities in the budget make it difficult to do so. For example during the 2005/06 budget process the Ministry of Education wanted to increase budget allocations to vocational training, an area outside the PAF, however its proposed allocations to that sub-sector were cut during the budget process. Even within the PAF there are rigidities, and there has been limited reallocation between PAF programmes. Thus GOU has found it difficult to expand allocations to agricultural advisory services, despite an increase in their profile in the PEAP and the dialogue. The protection of budget disbursements to PAF programmes exacerbates this problem, as non-wage recurrent and development expenditures are consequently subject to greater budget cuts during the financial year when there are resource shortfalls, or over expenditures in other areas. This problem is mirrored at the local government level, where, as mentioned previously, the majority of transfers are channelled as PAF conditional grants, which limit local government autonomy (however initiatives are under way to provide LGs with some limited flexibility to reallocate across conditional grants – see Annex 6).[8]

Operational Efficiency

9. In this section we review various indicators of operational efficiency. It should be stressed that such indicators are inherently crude: they do not substitute for detailed analysis at the level of individual services and cost-centres, but they do provide some general impressions.

Discipline and credibility of budgets

10. The consistent maintenance of aggregate fiscal discipline has, to date, been a great strength of public financial management in Uganda. GOU has progressively improved the realism of the overall budget over time, with aggregate revenues and expenditures increasingly in line with projections. Domestic revenues deviated 2.5% from budgeted amounts between 200/01 and 2004/05, whilst aggregate expenditure has deviated on average only 3.9% from budgeted expenditures over the same period (MFPED[9]). However this hides significant variations of disbursement against budget at the vote level, which have averaged around 10% over the last 4 years. It is likely that there are even more variations in terms of expenditure against budget at and below the sub-vote level. Another factor undermining budget credibility is the large stock of payment arrears, amounting to 16% of public expenditure between 2002/03 and 2004/05.

11. Within local governments the credibility of the budget is a significant issue. In a sample of five local governments, the 2005 Local Government PFM Assessment (Williamson et al 2005) shows that revenues and expenditures were about 19% less than projections, and local revenues were particularly poor performers. Department expenditures within local governments, on average, deviated 27% from budgeted amounts. Under-expenditures stem from a lack of realism in revenue projections Budgeting is made more difficult by a proliferation of different grants from central government, variations in central allocations during formulation, and the unpredictability of local revenue sources. Disbursements of central government grants to local governments, although subject to delay, are relatively reliable, and tend to be spent in full.

[8] Under the Fiscal Decentralisation Strategy

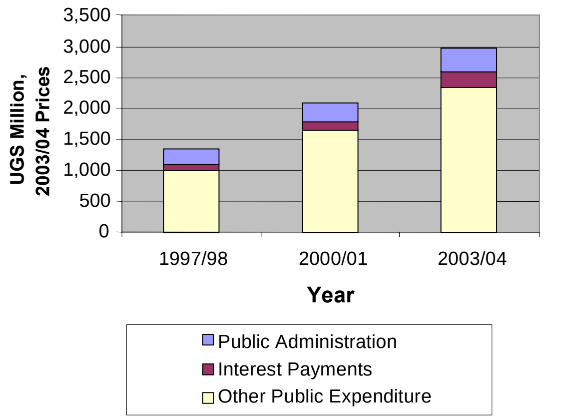
[9] All PFM data cited in this chapter, unless otherwise stated is calculated from data drawn from various MFPED documents, including Budget Framework Papers, Backgrounds to the Budget, Budget Performance Reports and Budget Speeches.

Weak cash management at the local level means that local governments find it difficult to handle such delays.

12. Despite the early success of a Commitment Control System, which was introduced in the late '90s, in controlling the creation of new arrears, and substantial expenditures on the clearing of the outstanding stock of arrears, Uganda still has a large stock of arrears. Central Government arrears amounted to about UGS 450bn by June 2003 or about 16% of the 2003/04 GOU budget. New arrears are also still being created. Many local governments also have significant stocks of salary and pension arrears.

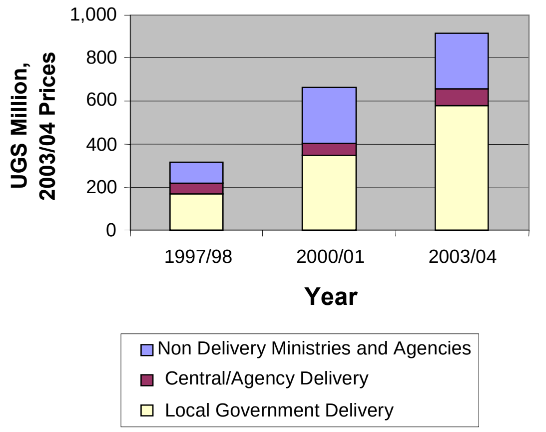
Figure 4A.4: Aggregate Efficiency of Public Expenditures

Public Administration and Interest Payments and other Public Expenditures



GOU Expenditure, Excluding Donor Projects.

Increase in Funds To Service Providers over time (Agric, Health, Education, Roads, Water)



Source: Ministry of Finance.

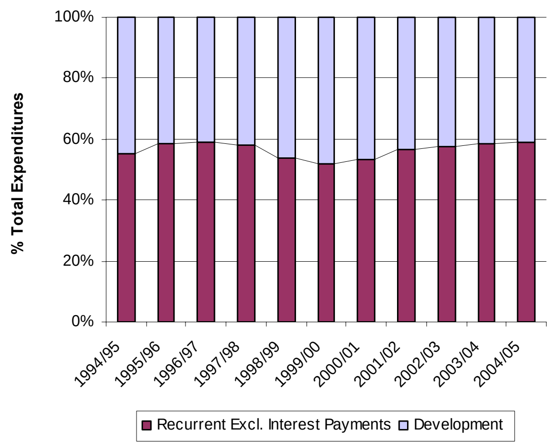
Aggregate Efficiency – Overheads vs. Service Delivery

13. The increased (overhead) cost of budget financing from 5% in 1997/98 to 8% of total public expenditures in 2003/04 represents, in itself, a loss in efficiency in public expenditures, especially if one considers that over this period budgeted expenditures nearly doubled. Despite popular belief in Uganda the cost of public administration (which may also, simplistically, be regarded as an overhead cost) has fallen as a proportion of public expenditures, from 15% in 1997/98 to 12%, although it is expanding in absolute and real terms as part of a rapidly increasing budget. Similarly at a local government level expenditure on administration has fallen from 36% of expenditures in 1997/98 to 24% in 2003/04. Overall this can be seen as an increase in aggregate efficiency of the budget. However the increase in the cost of budget financing has cancelled out gains from the reduction in public administration, as a share of the budget.

14. Next we can examine the share of sector budgets being allocated to service providers relative to central government ministries. The share of the agriculture, health, education, roads and water budgets spent on service delivery increased slightly between 1997/98 and 2003/04, from 68% to 72%, suggesting a slight improvement in efficiency (Figure 4A.4). The increased share of budgets in these sectors being allocated to local governments also suggests an increase in efficiency, as they are the institutions responsible for basic services. The proportion of funding allocated to and spent on delivery varies from sector to sector – in 2003/04 over half the agriculture sector budget was spent by non-delivery agencies, whilst in education 15% of

public expenditures were spent at the centre. This illustrates that the improvements have not been automatic.

Figure 4A.5: Shares of Recurrent, Development and Non-Wage Expenditure

<table>
<tr><th>Recurrent vs. Development Expenditure</th><th>Recurrent Wage vs. Non-Wage</th></tr>
<tr><td>
</td><td>
</td></tr>
<tr><td colspan="2">Source: Ministry of Finance.</td></tr>
</table>

Expenditure Composition

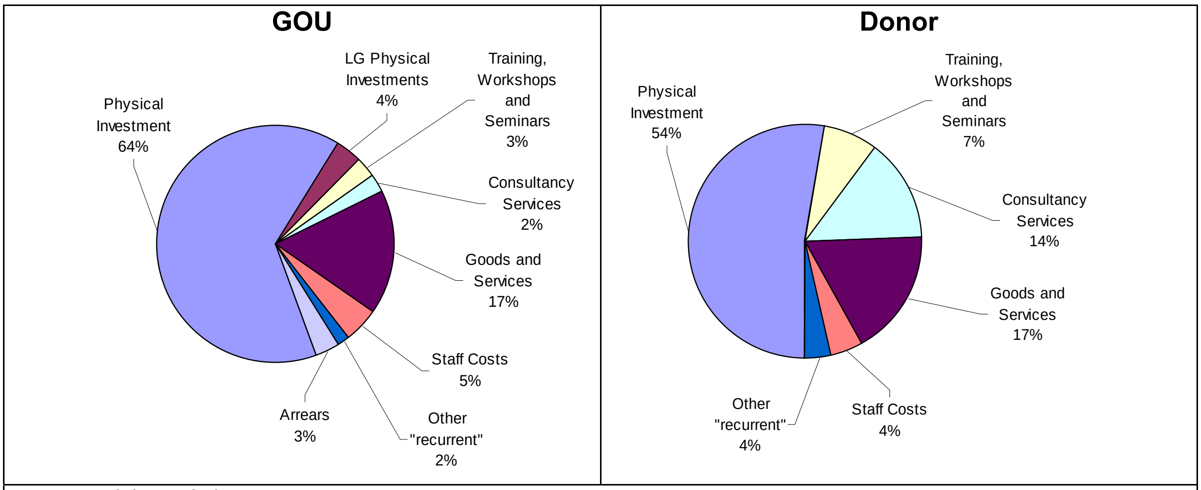
15. Analysis of the balance between the recurrent and development budget, and the size of the wage bill (see Figure 4A.5) can also give us indications of the efficiency of the budget. In a highly aid dependent country such as Uganda, development expenditures are often artificially high due to the large proportion of project funding in the budget (and the inclusion off recurrent expenditures in "projects" funded by donors). Often in such circumstances budgeted recurrent expenditures are dominated by salaries. The share of recurrent and development allocations has increased steadily since 1999/00 to 2004/05 from 52% to 59%. The proportion of the budget allocated to salaries increased steadily from 1994/95 to 1998/99, but the increases tailed off during the budget support era, increasing the space for non-wage recurrent spending on the operation of services. This indicates an increase in efficiency, which is reinforced by the fact that much of staff recruitment during this period was directed to service providers, especially teachers and health workers.

16. There is, however evidence emerging that early gains in efficiency are now being undermined at the local government level, as Williamson (2005) highlights:

> *"The share of local government spending on wages has increased from 39% to 46% whilst the share of non-wage recurrent expenditures has declined from 31% to 21% of expenditures between 2002/03 and 2005/06. This reflects a decline in nominal terms from a peak of Sh283bn in 2003/04 to Shs235bn in 2005/06 and a large decline relative to GDP from 2.4% to 1.4% of GDP between 2002/03 and 2005/06 in non-wage recurrent expenditures. Meanwhile the scale of service delivery has been increasing, which implies that less operational funding is available to deliver more and more services. This trend is likely to undermine rather than improve the quality of services being delivered by local governments, as they will not be able to operate and maintain new infrastructure, or spend as much on the routine aspects of service delivery."*

17. If one examines the relative efficiency of donor funded development expenditure vis-à-vis GOU funded development expenditure it is easier to see differences in prima facie efficiency. Figure 4A.6 shows that over the period 1999/00 to 2003/04, if one includes LG investments, well over 10% more of GOU funded development expenditure was spent on fixed assets relative to donor funding. Similarly only 2% of GOU development expenditure was on consultancy services, relative to 14% for donor funding, much of which is likely to have been taken up in project administration. Whilst over double donor funded development expenditure was spent on workshops and training relative to GOU.

Figure 4A.6: Composition of GOU and Donor Development Spending 1999/00–2003/04



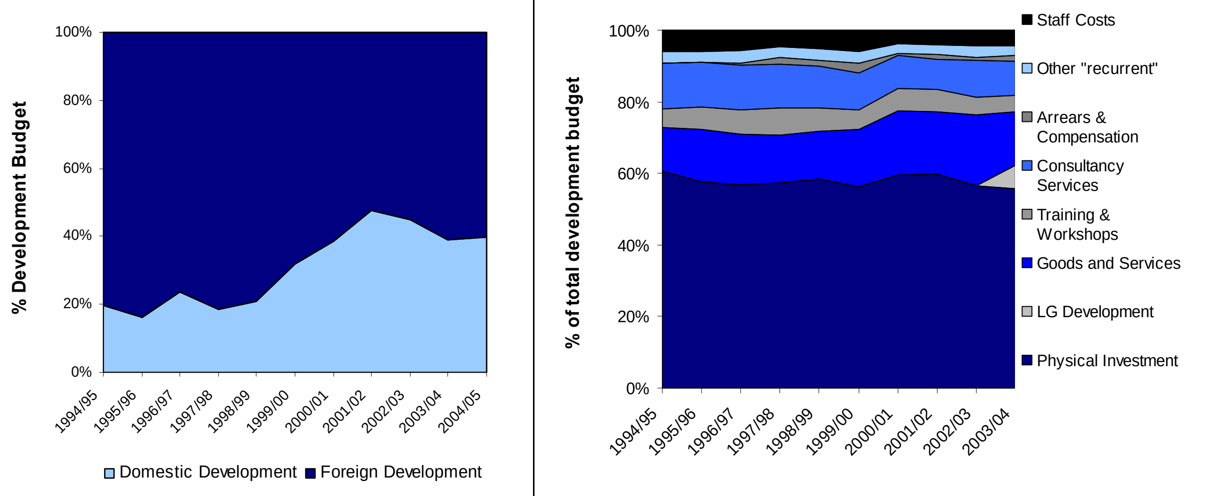
Source: Ministry of Finance.

18. From 1997/98 there was a definite increase in the proportion of the development budget being financed directly through the Government Budget, from 20% in 1997/98 to a peak of 50% in 2001/02. Since then this has tailed off and back down to about 30% in 2003/04. Therefore if one examines the composition of development expenditure – including both donor and GOU funded expenditures – it is possible only to see some slight evidence of improvements in efficiency, and there has certainly been no marked deterioration. For example recurrent elements of development expenditure have fallen from 9% to 7% of the budget, and the expenditure on long term and short term consultancy services has fallen from 13% to 9% of project expenditures. Most of the gains have been absorbed into increased expenditure on goods and services rather than increasing expenditure on physical assets. It is also important to note that donor-funded projects may legitimately be spending more on consultancy services, workshops and training, if they are explicitly geared towards technical assistance and capacity building.

Figure 4A.7: Trends in Total Project Expenditure 1994/95–2003/04

The Share of Project Aid in the Development Budget

Composition of Total Project Expenditure over time (Donor and GOU combined)



Source: Ministry of Finance.

Conclusions

19. On balance there are strong indications of improvements in both the allocative and the operational efficiency of public expenditure, even despite the efficiency loss of the increased cost of budget financing in recent years. These gains are even more impressive, given the fact that the budget has been increasing at such a high rate in many sectors which will have directly undermined incentives to increase efficiency.

20. It is important, however to emphasise the limitations of this analysis. Although relatively smaller in size, there have been major absolute increases in some line ministry budgets, without much emphasis on where or how the money is being spent. As we shall examine in Chapter B7, there are also major concerns about effectiveness and the quality of service delivery emerging. The scale of budget increases may have increased the room for corruption (see Chapter C5). And it is likely that the climate of rapidly expanding public expenditures leads to more emphasis on attracting larger allocations than on using existing resources more efficiently and effectively.

Annex 4B: Public Financial Management

Introduction

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can make a special contribution towards strengthening them.

2. Hence a growth in the number of PFM diagnostic reports (PERs, CFAAs, CPARs, etc.) as well as donor-specific fiduciary analyses. In six of the seven GBS study countries, the donor demand for tracking of HIPC relief funding was pivotal, with Assessments and Action Plans (AAP) as path-breakers; Vietnam, not in the HIPC group, is an exception.

3. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on Harmonising Donor Practices for Effective Aid Delivery (OECD DAC 2005) includes a chapter on capacity development for PFM. A PFM Performance Measurement Framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA 2005).

4. The Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

   1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
   2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
   3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
   4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
   5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
   6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow up by executive are operating.

5. A set of 28 high-level performance indicators has been developed, as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA 2005), in which the assessment for each high-level indicator is based on a number of specified components. It is beyond the scope of this study to undertake a full PEFA-based analysis (and in any case the PEFA scoring system was not finalised until 2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has been oriented towards the PEFA indicator framework as far as possible.

6. Drawing on the secondary sources available, in this annex we give a brief overview of the strengths and weaknesses of planning, budgeting, and financial systems, in drawing from past PFM assessments in Uganda and we then provide against the six dimensions of the PEFA

framework. We then use standard matrices to consider PFM issues against the indicators defined by PEFA for central government in more detail (although the scoring methodology is not applied).

Stages in Uganda's PFM Reform

7. Uganda has had an ambitious programme of public financial management reform over the last decade. There are three clear stages in the reforms to PFM, which have had different emphases:

- *Stage 1: Aggregate Fiscal Discipline.* In the early 1990s the major focus was the establishment of aggregate fiscal discipline, enforced in 1992 through the move to cash budgeting and the development of a medium-term budgetary framework (MTBF), and top down budgetary ceilings, which were set out in a Budget Framework Paper (BFP). Disbursements to key Programme Priority Areas, such as primary education, were protected. From 1994 the World Bank started to orient its Public Expenditure Review process towards supporting the background analysis for the MTBF.
- *Stage 2: The Allocation Function.* From 1997 focus moved towards improving the efficiency and effectiveness of resource allocation through the introduction of the Medium Term Expenditure Framework covering all sectors and supporting an outcome-oriented budget, whilst simultaneously increasingly opening up the budget process, enhancing participation and transparency. The MTEF resulted in a sector focus, with intra-sector allocation of resources being delegated to sector working groups, and the development of sector strategies, and sector wide approaches. The first iteration of the PEAP was finalised, and the Poverty Action Fund formed as a virtual mechanism for directing debt relief and budget support toward PEAP priorities.
- *Stage 3: The Legal Framework and Accounting Function.* Since 2000 the focus of reform has shifted towards improving the legal framework for budgeting and financial management, with the enactment of the Budget Act and the Public Financial and Accountability Act, and upgrading of the accounting function within government, which has included the introduction of an Integrated Financial Management System.

8. This analysis starts with an assessment of the strengths and weaknesses of financial management, and draws from the 2004 Uganda Country Integrated Fiduciary Assessment, which covered both local governments and central government, and incorporated the CFAA, the CPAR, and the Public Expenditure Review. Data is also drawn from the two HIPC tracking exercises from 2001 and 2004, which help illustrate the trajectory of change, during the move towards the current budget support arrangements, and also a 2005 assessment using PEFA PFM indicators.

An Overview of The Strengths and Weakness of PFM systems in Uganda

The credibility of the budget

9. Aggregate fiscal discipline has, to date, been a great strength of public financial management in Uganda. Macro discipline was established, through, inter-alia, the move to cash budgeting and the establishment of the Medium Term Budgetary Framework in the early 1990s, following a lapse in fiscal discipline, which led to high inflation. At an aggregate level, the Government of Uganda has improved the realism of its budget over time, with aggregate revenues and expenditures increasingly in line with projections. Domestic revenues deviated 2.5% from budgeted amounts between 1999/00 and 2004/05. Aggregate expenditures on average deviated 3.9% from budgeted amounts. The trend appears to be improving as well with increasingly tight fiscal discipline at an aggregate level. This has contributed significantly to ensuring macroeconomic stability, as is highlighted in the macroeconomic analysis.

10. At a sector level, average deviations in budget disbursements have been falling, from nearly 10% in 1998/99 to 5.5% in 2002/03. However this hides significant variations of expenditure against budget at the vote level, which have averaged around 10% over the last 4 years.

11. Despite the initial success of the Commitment Control System introduced in the late 1990s in controlling the creation of arrears, and substantial allocations to clear the outstanding stock, Uganda still has a large stock of arrears, amounting to over 15% of budgeted expenditures. New arrears are also still being created; and there is now concern that arrears have begun to accumulate again in key ministries.

12. Within local governments, which represent over a third of government expenditure, the reliability of the budget is a major problem. This stems from a lack of realism in revenue projections for local taxes and donor project support. It is further complicated by the fragmentation of local government budgets, caused by a proliferation of conditional grant financing from central government. In a sample of five local governments, the 2004 Local Government Integrated Fiduciary Assessment showed that revenues and expenditures were around 10% less than projections, and local revenues were particularly poor performers. Department expenditures within local governments, on average, deviated 25% from budgeted amounts. Many local governments also have significant stocks of salary and pension arrears.

13. The credibility of the budget is becoming a central test of the partnership between donors and government. When government deviates from agreed expenditure plans, development partners are becoming increasingly concerned. In this respect through the Poverty Action Fund, the Government of Uganda commits to protecting disbursement of budgeted funds to priority PEAP programmes. However development partners are not just concerned with budgeted and actual expenditure, but also when there are significant changes made to MTEF allocations during the budget process, which occurred during the run up to the 2004/05 budget, this is also considered a breach in the partnership. Predictability in expenditure policy is also central.

14. A test of expenditure policy, budget discipline and subsequently the partnership will be fiscal discipline in the run up to the 2006 election. Although budget discipline has not deteriorated significantly up until 2002/04, many fear that it may well deteriorate over the coming two fiscal years. A case being cited by some development partners as a breach in budget discipline is a supplementary budget that has been allocated to Primary Teachers and Health Workers' salaries, which has resulted in cuts in non-wage recurrent releases to central ministries. The Ministry of Finance has subsequently issued a circular instructing Ministries that no more Supplementary Budgets will be allocated during the 2004/05 financial year, and maintaining this line will be the real test of the Executive's commitment to maintaining the integrity of the budget.

Comprehensiveness and Transparency

15. The MTEF, which has been in place since 1997/98, provides information on allocations and expenditures of central ministries and agencies, and transfers to local governments, and is central to the budget allocation process. The budget cycle has evolved into a transparent and participatory process, and information on budgetary proposals and decisions is made public. In addition popular versions of the budget are published each year.

16. The Poverty Action Fund, was a very important early innovation in enhancing the transparency of the budget, by highlighting the allocations to poverty reduction priorities, and demonstrating to the public how HIPC debt relief and subsequently budget support was being allocated and spent. Up until 2001 quarterly reports were compiled by the Ministry of Finance and discussed at quarterly meetings with civil society, the press and development partners. Since then semi-annual budget performance reports are published by the Ministry of Finance.

These reports are more comprehensive than the PAF reports, however the PAF meetings were not replaced by a public forum to discuss budget performance. Disbursements to local governments are published in national newspapers.

17. The Budget Act of 2001 has ensured this transparency is maintained. Actions have been taken to make the budget more accessible to the public through producing citizens' guides, and supplements in national newspapers, but a lot of information remains presented in a technical way.

18. At a more technical level, recent revisions to the Chart of Accounts, and the introduction of the IFMS will ensure administrative, economic, and functional breakdowns on budgets and expenditure are available. However the comprehensiveness of fiscal information remains an area of concern. For example, information on state-owned enterprises is not up-to-date. Information on the extent to which such enterprises, and local governments have incurred debt is incomplete. Information on the contingent liabilities of government is also weak, and recent large court awards have had a significant impact on budget discipline. The MTEF does not reflect local government expenditures from local revenues.

19. At the beginning of the evaluation period many local governments did not pass budgets, but the discipline was established by the end of the 1990s. Since then the presentation of local government budgets is improving, more lately, as a result of the introduction of budgeting guidelines under the Fiscal Decentralisation Strategy, and the new chart of accounts. Information in budgets is fairly comprehensive, but there is no consolidation of higher and lower local government sector budget allocations and expenditures and limited consolidation of investments financed from sector conditional grants and the Local Development Grant (LDG), which means that decisions are fragmented. Although local governments are moderately transparent, financial information is not provided in a way accessible to council or the public, undermining accountability at those levels.

Strengths and Weaknesses of the Planning and Budgeting Cycle

Policy-Based Budgeting

20. The process of medium term budget formulation has matured into a relatively effective process. The initial focus of the MTBF process up until 1997 was the macroeconomic fiscal framework, and controlling allocations to major budget lines such as the wage bill, operation and maintenance, subsidies, and to the Public Investment Plan. Sector analysis for major sectors – education, health, agriculture and roads – was first introduced in 1995, but it was for the 1997/98 financial year that the Medium Term Expenditure Framework was introduced to cover all sectors, and sector working groups were established, led by line ministries charged with preparing medium term sector budget proposals. In 1997 the Poverty Eradication Action Plan was first produced, which set out GOU's strategies and priorities for poverty reduction. In 1998 Outcome Oriented Budgeting (OOB) was introduced, in an effort to orient sector budget proposals towards results. A number of sectors have developed costed sector strategy documents and/or investment plans, which have facilitated more realistic, and evidenced-based MTEF allocations. As the sectoral planning and PEAP processes have evolved, sector investment plans and PEAP documents have reinforced each other, and formed an increasingly realistic and sound basis for sectoral resource allocation. A long term expenditure framework (LTEF) has been developed as part of the most recent PEAP revision process, which aims to provide realistic financing scenarios within which sectors can develop their strategies. The Poverty Action Fund was introduced as a mechanism to highlight budget allocations to key PEAP priorities, and ensure that HIPC debt relief and other budget support was channelled towards these areas. Now GOU is committed to ensuring the PAF allocations do not fall as a proportion of the GOU budget during the allocation process.

21. The planning and budgetary processes have become increasingly participatory with the involvement of civil society and development partners, and since the 2001 Budget Act, the formal involvement of Parliament prior to the preparation of the detailed annual budget. Now Uganda has a two stage budget formulation process, which involves sectors developing medium term budget strategies within broad sector ceilings, which are discussed with Ministries by the Ministry of Finance, and compiled in the form of the Budget Framework Paper, which is discussed and approved by Cabinet before being tabled by parliament. This means that the BFP is now formally in the public domain before the budget. The Budget Committee of Parliament also provides opinion on the BFP. After Parliament, and also IPs have commented on the BFP, which happens publicly at the Public Expenditure Review in May, the second stage commences – the preparation of annual budget estimates which are tabled to Parliament by June 15 each financial year. The Budget Framework Paper process is mirrored by the local governments.

22. Although the basic elements of a sound budgetary process are in place there has been little technical improvement since 2000. Sector submissions still vary significantly in quality, and some point to a decline in quality overall in recent years. Many sectors still lack adequately costed sector strategies, which would form the basis of sound sector working group submissions to the BFP. This detracts from the quality and integrity of the overall budget allocations. The outer years of the MTEF have proven unreliable, and this is exacerbated by the fact that Cabinet often makes last minute adjustments to budget allocations just before Budget day, which undermines the credibility of the long drawn out participatory budget process. The capacity for Parliament to scrutinise budget submissions effectively is questionable, although it is being taken increasingly seriously by legislators, and improving. Although there is a degree of integration of recurrent and development decisions, the wage bill is not fully integrated into the budget, and wage bill decisions are made centrally by the Ministry of Public Service, just before the reading of the budget. Although local governments have been preparing activity-based workplans linked to grant allocations for a number of years, central agencies have not begun to do so. Under the Results Oriented Management initiatives, annual performance plans have been prepared, however, these are not explicitly linked to budget allocations, and are not a requirement in the budget process. Similarly, procurement is rarely planned for in advance, which hampers budget implementation.

23. There have been more signs of improvement at the local government level. There is now a relatively well ordered local government budget process, which is well internalised by politicians, and the quality of budget documentation has improved significantly. A medium term perspective to budget making in the guise of the Budget Framework Paper (BFP) and Development Plans has been established and there are rudimentary efforts to cost investments. The majority of grant allocations are made using rule-based formulas, and final allocations are predictable. There are, however, many factors which limit the ability of local governments to link the budget to their policy objectives. Indicative planning figures for central grants are unreliable, whilst final grant allocations are provided too late to be included in local government budgets. Inadequate autonomy in resource allocation due to the proliferation of conditional grants in the recurrent budget also undermines efficiency, and is likely in future to contribute to unrealism in budget allocations. Recently, as investments have been made in local governments there has been no commensurate increase in allocations to recurrent conditional grants (which fund the bulk of local services), or to discretionary funding to take care of the recurrent implications of these investments, and the expansion of delivery. This means, in effect, the grant system precludes the use of medium term budgets to link recurrent and development allocations.

Predictability and Control in Budget Execution

24. Ultimately it is a perceived loss of predictability in budget execution which appears to be undermining the credibility of the budget formulation process, and the significant progress made to date in the budget formulation process.

25. In the early 1990s cash management, and the running of a cash budget was central to ensuring aggregate fiscal discipline. Improvements in cash management ensured that the wage bill, disbursements to priority programme areas, and counterpart requirements for project funding could be maintained. On the face of it, as aggregate resource projections have become increasingly realistic, cash management should have become easier, but increased rigidities in the budget, and commitments to disburse PAF programmes in full exacerbate the problem. Cash management is weak at both central government and local government level, which leads to unpredictable cash disbursements for spending entities within central and local government. At the centre, if one adds up Wage, Statutory and PAF budget allocations, which have explicit release protection, and defence which has implicit release protection this amounted to 70% of the GOU budget, excluding projects. This means that the remaining 30% of the budget, which is largely made up of central agency non-wage recurrent and development budgets, has to absorb all the shocks from the vagaries of the cash flow. This has culminated in very irregular releases for Central Ministries' recurrent and non-PAF development budgets, and it appears that the situation is deteriorating because of the increased inflexibility in the budget. As mentioned previously the Commitment Control System (CCS) introduced in 1998 has led to a reduction in the accumulation of arrears, but the unpredictability of the cash flow is undermining the credibility of the CCS, and many feel that the discipline instilled by the system is not being maintained. There is no commitment control system within local governments, where cash is the major instrument of control.

Box 4B.1: Funds do reach their intended destination

Between 1992 and 1995 it was estimated that only 20% of operational funds were reaching schools. However, by 1998, soon after their devolution reforms had been introduced nearly 100% were reaching schools. Tracking studies in other sectors reveal that funds are reaching spending units although it does take an average of one month in local governments.

Information has been key to changing the incentives faced by bureaucrats and service providers, who can no longer divert funds. Central Government publishes transfers to local governments in the press. In education, requirements for primary schools to post public notices setting out there finances were also introduced, but this has not been successful in other sectors.

Source: Reinikka et al

26. In the early 1990s, budget resources often did not reach service providers in full, but more recent release tracking studies have shown that budget resources do now reach the intended spending entities (see Box 4B.1). However it still takes an average of a month for releases to reach spending entities (see Annex 6, B3).

27. Procurement remains a significant issue at central and local government, and an area which is open to substantial degree of corruption. Until 2001 central government procurement was centralised. Since 2001 the legislative framework for public procurement has been reformed, and this culminated in the 2003 Public Procurement Act, and supporting regulations. Procurement has been decentralised to contract committees in central agencies, a Public Procurement and Disposal of Public Assets Authority (PPDA) was formed, responsible for policy and regulation of procurement. Similar legislative reforms are under way in local governments, where politicking and corruption in procurement is most visible. The regulations are complex and the capacity for procuring entities to follow them is not yet in place. Procurement plans are not prepared, the procurement process is not transparent, and contract management is weak.

Despite the technically sound legal reforms, the political will to ensure that these reforms are enforced, and corruption is tackled, is also uncertain.

28. Although they have improved significantly over the years internal controls remain weak at the central and local government levels. At the centre internal audit remains centrally controlled by the Ministry of Finance and focused on pre-audit of transactions, and there is no systematic data on irregularities. The Public Financial Accountability Act provides for the decentralisation of internal audit, and the reporting of the internal auditor to the chief executive and audit committees within each ministry, but these changes have yet to be effected. The introduction of the IFMS should help strengthen internal controls. There are also few effective controls to ensure that work plans are implemented as intended, which means that intended activities can be altered without formal technical or political approval. Despite this, evidence from the LGIFA and various tracking studies suggest that work plans are, by and large, implemented as intended.

Accounting, Recording and Reporting

29. Over the last five years significant effort and progress has been made to upgrade the accounting and reporting function within government. Despite its manual nature, the timeliness and accuracy of the maintenance of books of account, and performance of reconciliations have improved significantly at the central and local level. Regular in-year financial reports are prepared by central and local government spending agencies. As mentioned earlier the Ministry of Finance prepares six-monthly Budget Performance reports which replaced PAF quarterly reports which were prepared between 1998 and 2002.

30. However there are concerns. At the local government level, reporting is based on conditional grants, and not revenues and expenditure against the budget. This has reinforced central allegiances, and undermined local accountability. Reporting on performance is limited to local governments only, and central agencies are not required to report on results, undermining OOB and ROM initiatives. Budget performance reports are prepared internally by the Ministry of Finance, and are based on financial and not performance information. The comprehensiveness and integrity of budget reporting from spending agencies is a matter of concern, and this undermines the usefulness in decision making. There is inadequate reporting on debt, non-tax revenue, and local government revenues. Reports are often just seen as box-filling exercises, with little effort to ensure accuracy of information. Weak, fragmented monitoring and follow-up exacerbates this.

External Scrutiny and Audit

31. There are many oversight bodies involved in ensuring external accountability, but their effectiveness ultimately rests on the political will to ensure that procedures are complied with and sanctions imposed on those who do not comply.

32. The Office of the Auditor General has a broad scope and mandate, and now has access to classified expenditure. However the OAG has limited independence and control over its budget and human resources, which limits its ability to carry out its mandate, which involves, for instance, the audit of over 900 sub-county council accounts. Despite this, the GOU has presented its Annual Report to Parliament within the statutory period for each of the last six financial years. Higher local governments are increasingly submitting their Final Accounts on time, and the Auditor General has been able to carry out more timely audits.

33. Despite the improvements in timeliness, the external scrutiny of government accounts and government performance more generally is weak. Increasingly local and central government Public Accounts Committees (PACs) are reporting on time, and sector committees debate sector budgets and policy statements in detail. However councils and parliament do not provide

sufficient time to discuss reports. The understanding of government mechanisms within parliamentary committees is not adequate, and therefore their capacity to scrutinise government performance needs strengthening. The record of accountability institutions, such as the Inspectorate of Government, the Department of Ethics and Integrity in pursuing corruption cases is mixed.

34. Public access to information is central to the democratic accountability process, and as we have described much of the PFM process is relatively open and transparent, and documents are in the public domain. However, as we mentioned earlier, the appropriateness of information, and the way it is presented is often not conducive to promoting public accountability. Public forums for discussing government performance are limited to budget formulation, and not the performance of government institutions. In the first four years of the Poverty Action Funds public quarterly meetings were held, where civil society had opportunity to question government performance. However since the move to budget performance reports these meetings have ceased. The public have no information on how their local governments are performing in terms of service delivery in relation to others. The LGDP annual assessments of LG performance have provided a good overview of the LG generic performance in areas such as planning, budgeting, financial management, procurement, and good governance, which has fostered internal discussion and demand for improved performance. However the assessments are not given adequate publicity, and so do not play a role in public accountability.

PEFA PFM Assessment Matrices

35. In the second half of 2005 full assessments of PFM were carried out using the PEFA indicators for central and local governments. Drawing from these we have used a standard matrix to consider PFM indicators against the principal dimensions defined by PEFA for both central and local government. The central government matrix also shows the HIPC AAP (Assessment and Action Plan) indicators and diagnostic results.

36. Our main assessment is of the current state of PFM, although (using evidence from secondary sources) we also examine developments during the evaluation period and offer a judgement as to whether systems are improving. At the time of finalisation of this report the PEFA PMF assessments were still in draft form, and therefore, although we use an adaptation of the summary narrative from that report, we have not applied the PEFA scoring methodology. Instead we express our judgement as good, moderate or weak on the basis of the assessment. In the future, rigorous assessment and reporting according to the PEFA guidelines, which is now planned to be carried out annually in Uganda, should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored.

Table 4B.1: Central Government PEFA Indicators[10]

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
	A. PFM OUT-TURNS: Credibility of the Budget				
PI–1	Aggregate expenditure out-turn compared to original approved budget	Strong	Strong	→	Budget disbursements have varied on average 4% from budget over the five years to 2005. At the vote level average variations have been between 10-20% over the last three years. However this does not reflect the higher variations in those votes, which constitute a higher % of the budget. In addition audited accounts reveal higher variations in expenditures.
PI–2	Composition of expenditure out-turn compared to original approved budget	Moderate	Moderate	→	
3	*Reliability of budget as guide to outturn (Level and composition of outturn is "quite close" to budget)*	*B*	*B*	→	
PI–3	Aggregate revenue out-turn compared to original approved budget	Strong	Strong	→	Domestic (tax) revenue collection has been broadly in line with domestic revenue estimates over the evaluation period. Indeed it has exceeded estimates in 2004/05. It should be noted however that the tax base of less than 13 % of GDP is lower than the regional average of 18%. Non tax revenues have not performed so well, averaging less than 75%. and only achieving 62% in FY2004/05. Although it should be remembered that these represent less than 1% of total domestic revenue.
PI–4	Stock and monitoring of expenditure payment arrears	Weak	Weak	→	The reliability of data for monitoring of the stock of arrears is considered to be doubtful. Incidences are cited whereby commitments arise after year end. The Auditor General's 2003/ 04 report cites an amount of UGS 44 billion owed by the GOU to the divestiture account and an arrear of USD 10m for the lease of an asset which was not included in the commitment statements. The CCS improved the position early on in the evaluation period, but there are signs that it is becoming less effective. In 2004/05 arrears appeared to be increasing in a number of key votes.
8	*Level of payment arrears (Very few or no arrears accumulated)*	*B*	*C*	↓	

[10] The PEFA indicators (PI-1 to PI–28 and D–1 to D–3) are taken from the June 2005 version of the PEFA PFM Financial Management Framework. The 16 HIPC AAP Indicators (2004 version) are included in Italics.

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI–5	Classification of the budget	Weak	Moderate	↑	The MTEF has grouped expenditures by broad sector programme since 1997, however for most of the evaluation period the budget classification has been administrative and economic. In 2003 GOU introduced a new classification system encompassing administrative, programmatic and economic classifications. The programmatic component has yet to be used, whilst functional classifications (COFOG) will be provided through IFMS reporting capabilities. (NB the decline indicated by the AAP score over-positive assessment rather than a decline in the situation)
5	*Classification of budget transactions (Functional and/or program information provided)*	*A*	*B*	↓	
PI–6	Comprehensiveness of information included in budget documentation	Moderate	Moderate	→	Budget documentation in the form of the Budget Speech, the Background to the Budget, individual ministry submissions, and information required under the Budget Act 2001 on total external indebtedness and grants received as well as guarantees provided provide a fairly comprehensive pack of information for review by Parliament. Information on financial assets, the budgetary implications of new policy initiatives and detailed information on the debt stock are less well covered. The ability of parliament and its committees to analyse the information still needs to be addressed.
1	*Composition of the budget entity (Very close fit to government finance statistics (GFS) definition of general government)*	*B*	*B*	→	
PI–7	Extent of unreported government operations	Weak	Moderate	↑	By its nature, it is difficult to quantify the extent of unreported government operations, although efforts were made to improve reporting systems early this decade. However, it is generally considered that a fairly significant level of public expenditure in the form of non tax revenue (NTR) is retained by semi- autonomous bodies and that there is under reporting of NTR in the budget. It is estimated that this is likely to be in the range of 5 - 10 % of total government expenditure. Whilst it is recognised that there has been improved reporting of donor project expenditure, the completeness and timeliness of information particularly in relation to expenditure is lacking.
2	*Limitations to use of off-budget transactions (Extra (or off) budget expenditure is not significant)*	*B*	*B*	→	

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
PI–8	Transparency of inter-governmental fiscal relations	Weak	Moderate	↑	The Local Government Finance Commission (LGFC) has developed a rules based formulae as the basis for grant allocations. All sectors except for education have agreed to the use of this objective formulae. Whilst local governments do receive Indicative Planning Figures (IPF) at an early stage, they are not reliable, and only become reliable once the national budget is read. Government transfers are generally predictable, as they benefit from release protection under the Poverty Action Fund, or for the case of the unconditional grant, the Constitution.
PI–9	Oversight of aggregate fiscal risk from other public sector entities	Weak	Weak	→	Information on public sector entities and autonomous government agencies is seriously deficient. The role of the Parastatal Monitoring Unit (PMU) is not recognised by a number of organisations, parent ministries do not appear to follow up on the submission of accounts as required by law and board MFPED representation is scattered. A number of entities have not produced audited accounts for several years, whilst other bodies have never prepared accounts for audit. The true state of contingent liabilities is uncertain. Whilst MOLG should approve loans for local government, there is no annual monitoring of the fiscal position of higher or lower local governments. Arrears are considered to be potentially significant.
PI–10	Public access to key fiscal information	Moderate	Moderate	→	Information on budget is available, but information on budget performance throughout the year in a user friendly format is not. Information on some procurement issues are provided, but transparency of registration lists is a cause for concern. Audit reports are technical documents and Public Accounts Committee (PAC) reports are only public documents after debate by parliament. Public can attend PAC but generally do not. Commission of inquiry reports are not always available to the public. MFPED website has some information, although the data is often not up to date.

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
	C. BUDGET CYCLE				
	C(i) Policy-Based Budgeting				
6	*Identification of poverty-reducing expenditure (Identified through use of classification system)*	*A*	*A*	→	Poverty Action Fund has allowed tracking of poverty reducing expenditures since 1998, and can be identified easily in budget documentation, although there is no formal coding in the new chart of accounts for PAF expenditures.
PI–11	Orderliness and participation in the annual budget process	Moderate	Moderate	→	A clear annual budget calendar exists, although there are delays in its implementation. The ceilings indicated in the budget circular are not approved by Cabinet prior to its distribution, but Cabinet approval is obtained with sufficient time to allow the MDAs to make any required changes. Participation in the annual budget process is a two stage process. Prior to the submission of the Budget Framework Paper (BFP) to Cabinet, Sector Working Groups (SWG) and cross SWG discuss their requirements and there are national and regional workshops. After Cabinet resolution on the detailed BFPs, there is an external review process including Development Partners (DPs) and Budget Committee prior to the presentation of the detailed budget to Parliament in June, Parliament debates the budget with a view to approving it. The vote on account is normally approved within a few days of the start of the year, however approval of the budget itself is normally in September.
PI–12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Moderate	Moderate	→	Multi year aggregate fiscal forecasts and forward expenditure estimates (based on an economic and sectoral basis) are prepared on a rolling annual basis. Forward year projections have however proved unreliable in the past although there is a clear link to the budget. The last complete debt sustainability analysis was carried out in 2002 by the GOU in association with the World Bank. Costed strategies exist for several sectors including health, education and defence. At a planning level, there is recognition of the relationship between capital investment. However the phasing is not incorporated (or accommodated) so well, for example the capacity of teacher training centres or nursing schools to meet the demand.
7	*Quality of multiyear expenditure projections (Projections are integrated into budget formulation)*	*A*	*A*	→	

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
	C(ii) Predictability and Control in Budget Execution				
PI–13	Transparency of taxpayer obligations and liabilities	Moderate	Moderate	→	In general tax legislation is considered to be clear with only limited discretionary powers, e.g. in instances of hardship. However, ad hoc exemptions e.g. the non payment of taxes by judges could be viewed as undermining the transparency and fairness of the tax system. The Minister of Finance is required in his budget speech to announce any incidences in which he has waived tax liability. The VAT refund procedures are viewed as more problematic. The tax appeals mechanism is in place but it is too early to assess its effectiveness, fairness or efficiency.
PI–14	Effectiveness of measures for taxpayer registration and tax assessment	Weak	Weak	→	The current taxpayer registration system is not yet integrated, allows individuals to have more than one tax identification number and is not linked to any other licensing or registration system. Until this year, non compliance has not been effectively addressed, penalties have been ineffective or not imposed in a fair and consistent manner. Tax audits and fraud investigations have not been carried out in a structured way.
PI–15	Effectiveness in collection of tax payments	Weak	Weak	→	Accurate information on tax arrears is not available and therefore collection ratios cannot be calculated. Revenue collections are transferred on a monthly basis to the Treasury, although recognised in the accounts on receipt by URA. Lack of accurate information does not facilitate reconciliation of assessments, collections and arrears. GOU does not recognise tax arrears in its accounts.
PI–16	Predictability in the availability of funds for commitment of expenditures	Weak	Moderate	↑	At the central level, MFPED prepares a cash flow forecast for the fiscal year and updates it quarterly on the basis of actual inflows and outflows. MDAs are required to submit quarterly projections for recurrent and development (introduced in 2002) and monthly commitment monitoring reports, as a basis for MFPED quarterly expenditure approvals (commitment ceilings) and monthly cash releases. In general the information on resource availability is considered reliable, although some line ministries noted that releases were late (particularly at year end and on the changeover from vote on account to appropriated budget) and sometimes there were reductions in agreed monthly releases for non PAF items.

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
PI–17	Recording and management of cash balances, debt and guarantees	Weak	Moderate	↑	Transaction processing, accounting and debt reporting are undertaken centrally by the AccGen in cooperation with the ALD and the BOU. Monthly debt reporting is now available from the system. A coordination committee involving stakeholders has been established. Generally domestic and foreign debt (for central government) is considered to be up to date, but some gaps and reconciliation problems are recognised. Information on old and new loans guaranteed to the private sector through the BOU is incomplete. Each MDA has recurrent, development and revenue bank accounts and a large number of special accounts primarily related to projects. Calculation of most cash balances should take place monthly but the system does not allow for the consolidation of bank balances. In terms of debts and guarantees, all new loans have to be approved by Parliament. Issuance of guarantees is done by the Minister of Finance. These decisions are not however taken within the context of an overall ceiling or on the basis of clear guidelines or criteria.
PI–18	Effectiveness of payroll controls	Weak	Weak	→	The payroll system for civil servants in central and local government (except for Rakai District Council) is maintained centrally. The payroll for the army is maintained separately by the Ministry of Defence. Currently the integrity of the main payroll system is undermined by the lack of regular reconciliation of the payroll, staff or personnel list and the establishment list. Anecdotal evidence from the AGO and the MDAs suggests that there can be significant delays (up to three months) in the processing of changes to personnel records and the payroll. Whilst controls exist, these have been found to be deficient and even facilitate payment errors. No independent payroll audits or staff surveys have been carried out in the last three years.

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
PI–19	Competition, value for money and controls in procurement	Weak	Moderate	↑	The legal and regulatory framework for procurement in Uganda is considered to be generally sound. However the implementation of the framework and enforcement of rules and procedures suffers from lack of capacity and understanding of public procurement issues by procurement staff and senior management, complexity of regulations and political interference. At the current time, there is insufficient data to assess the method used to award public contracts or whether open competition is being used in accordance with the regulations. Evidence from procurement audits shows that various ways are used to circumvent competitive bidding. Justification for the use of less competitive methods is weak. Registration or prequalification lists are not used in a transparent manner. OAG estimates that 20% of the value of procurement is lost to corruption. A process exists for submitting and addressing procurement complaints and the private sector is becoming increasingly aware of its existence.
16	*Effective procurement (Procurement processes promote competition, transparency and value-for-money)*		*B*		
PI–20	Effectiveness of internal controls for non-salary expenditure	Weak	Weak		Quantitative data on system irregularities is not currently maintained as Internal Audit (IA) has been primarily involved in pre-audit and external audit predominantly concerned with transactions. Up to date Treasury accounting instructions have now been issued, including IFMS procedures, where relevant. Compliance with the regulations remains a challenge. Increases in some ministries of arrears as discussed in PI 4 show that there are still problems with the control of expenditure. Commitments are not permitted until available cash cover exists in MDA bank accounts. However the Treasury Inspectorate Department (TID) has noted a number of areas of non compliance on Commitment Control Systems (CCS). The IMF mission on arrears and this team have also identified instances where commitment controls are circumvented even in IFMS sites.

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
PI–21	Effectiveness of internal audit	Weak	Weak	→	Although the legal framework has been established and a number of key documents have been developed including Internal Auditing Guidelines, Ethical Guidelines for Internal Auditors and a detailed Internal Audit Manual. At the moment in practice, internal audit remains primarily pre- audit with only limited focus on systems monitoring. Reports are irregular and recommendations (where made) are generally not followed up. Reports are submitted to both the Accounting Officer (AO) and the Commissioner for Internal Audit in the AGO, who does not have the ability to ensure that the AO follows up on any recommendations.
9	*Quality of internal audit (Effective internal audit function)*	*B*	*B*	→	
	C(iii) Accounting, Recording and Reporting				
PI–22	Timeliness and regularity of accounts reconciliation	Moderate	Moderate	↑	Treasury managed bank accounts are reconciled at least monthly. It is understood that comprehensive bank reconciliations from MDAs are received on a regular basis, although the team have not yet received confirmation of this assertion. According to the Auditor General's report, there remain a number of advance accounts, where outstanding advances have not been cleared.
11	*Quality of fiscal/banking data reconciliation (Satisfactory and timely reconciliation of fiscal and monetary data)*	*B*	*A*	↑	
PI–23	Availability of information on resources received by service delivery units	Moderate	Moderate		Although schools are meant to report on funds received and expenditures, this tends not to be enforced, and data tends not to be compiled by higher local governments. Consequently, there is no comprehensive data compiled on funds received by primary schools, although information is available on funds transferred to schools. The health sector reporting systems tend to be better adhered to, and information is available and consolidated. Data is reported on funds received down to the health centre III level in most local governments, and reported on quarterly. However this is tempered by the fact that tracking studies have become routine in most sectors, including health, education, and water and sanitation, revealing the degree to which inputs are received by service delivery units.
10	*Use of expenditure tracking surveys (Tracking used on regular basis)*	*B*	*B*	→	

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
PI–24	Quality and timeliness of in-year budget reports	Weak	Weak	→	Managing and consolidating the current manual monthly and quarterly financial reporting systems is difficult, with concerns being expressed about the integrity, timeliness and therefore usefulness for consolidated budget reporting and decision making. Only at the year end is significant effort made by MDAs to generate accounting data that can be consolidated for purposes of producing annual financial statements. For IFMS sites, more accurate reports on actual expenditure are being generated.
12	*Timeliness of internal budget reports (Monthly expenditure reports provided within four weeks of end of month)*	*B*	*C*	↓	
13	*Classification used for tracking poverty-reducing expenditures (Good quality, timely functional reporting derived from classification system)*	*A*	*A*	→	
PI–25	Quality and timeliness of annual financial statements	Strong	Strong	↑	A consolidated financial statement is produced annually and covers all ministries, agencies (including transfers to universities and research organisations), referral hospitals and embassies as well as transfers to local authorities. It includes some information on financial assets and liabilities, although this may not be complete. From 30th June 2003, financial statements for all MDAs and the Consolidated Fund have been prepared on a modified cash basis. In addition, accounting policies based on the International Public Sector Accounting Standards(IPSAS), Financial Reporting under the Cash Basis of Accounting11, are defined in the form of explanatory notes to the accounts. The annual statement is produced within 4 months of the year end in accordance with the legislation.
14	*Timeliness of accounts closure (Accounts closed within two months of year-end)*	*B*	*A*	↑	
	C(iv) External Scrutiny and Audit				
PI–26	Scope, nature and follow-up of external audit	Weak	Moderate	↑	Central government entities are audited annually. New regulations effective 1 July 2003 mean that the Office of the Auditor General (OAG) can have access to classified expenditure and the Auditor General's report for 2003/04 is the first to include classified expenditure. Coverage is therefore believed to be fairly comprehensive, Audit reports including audited financial statements have been submitted to the legislature within the designated period for the last six years for central government. Audits are predominantly transaction level testing but the reports do identify significant issues. Follow up of issues by management is limited and subsequent audit reports refer to previously noted concerns.
15	*Timeliness of final audited accounts (Audited accounts presented to legislature within one year)*	*B*	*B*	↑	

[11] This IPSAS was promulgated in January 2003 by the Public Sector Committee of the International Federation of Accountants (IFAC).

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
PI–27	Legislative scrutiny of the annual budget law	Weak	Moderate	↑	The situation has improved since the passing of the Budget Act in 2001. Following the revision by cabinet of the budget estimates, the budget committee reviews the position and provides its feedback before the budget is presented to parliament. Mandatory presentations from Government include a macroeconomic plan, fiscal and monetary programmes for economic and social development for a three year period, as well as estimates of revenue and expenditure covering both the one-year period (new financial year) and the three-year horizon (medium term planning period). In addition a number of other reports are presented, for example, the Minister of Finance is expected to present data on value for money (VFM) in relation to specified targets in the budget. The President is asked to present specified data on the national debt and the total sum of grants received by the State and achievements obtained through these grants. The Act also regulates the budget formulation procedures within Parliament.
PI–28	Legislative scrutiny of external audit reports	Weak	Weak	→	Public accounts committee work is several years behind. In depth hearings do take place with responsible officials but the adequacy of the process is limited by the capacity of committee members to understand the audit reports. Only when the PAC reports have been tabled to Parliament do they become publicly available. Since the presentation of the PAC reports are so behind, the issuing of the TMs are also way behind schedule, therefore undermining the effectiveness of the process. The PAC can advise the Minister of Finance to take appropriate action against public officers who have contravened any Act or abused their position, but constitutionally the legislature has no executive powers. According to the latest Treasury Memorandum (1997), recommendations are followed up, but the tardiness of the reports make them ineffectual.

No.	Subject	Status 2001	Status 2004/5	Trend ↑→↓	Comments and Analysis
	D. DONOR PRACTICES				
D–1	Predictability of Direct Budget Support	Weak	Moderate	↑	Overall, general and sector budget support has performed well in the last three years, however this does not equate with good performance by the donors in terms of their forecasting. The use of a discount factor by the Government for general and sector budget support also needs to be taken into account when assessing the reliability of the donor's forecasts as opposed to the government's budgeted amounts. In 2004/05, the type of budget support provided by the World Bank changed from loan to grant. Disbursements delays for the last three years have not been material.
D–2	Financial information provided by donors for budgeting and reporting on project and programme aid	Weak	Weak	↑	Information provided by donors for budgeting and reporting on project and programme aid has improved significantly, although there are still concerns over its completeness and timeliness. However for forecasting purposes, the main donors provide estimates of project aid in a format which is consistent with the government's classification and in a timely manner. Information on actual expenditure, although improving is still late.
4	*Data on donor financing (Donor-funded expenditures included in budget or reports)*	*A*	*B*	↓	
D–3	Proportion of aid that is managed by use of national procedures	Moderate	Moderate	→	As approximately 50% of aid is provided as budget support (general or sector), at least 50% of aid is managed through the use of national procedures. It is assumed that the majority of project funds do not use national procedures.

21. The same assessment criteria have been used for central and local government, and so it is important to note that LG performance is being judged by a high standard. Another caveat when looking at the local government assessment below, which is generally below that of local government, is to consider that at the start of the assessment period, local government PFM systems were almost non existent. Between 1994 and 2000, rapid progress was made in establishing such systems, and in many areas the momentum has been maintained to this day, as the matrix demonstrates. Ugandan local government financial management systems also fare well when compared to Kenya and Tanzania (Steffensen et al 2004).

Table 4B.2: Local Government PEFA Indicators

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
	A. PFM OUT-TURNS: Credibility of the Budget				
PI–1	Aggregate expenditure out-turn compared to original approved budget	Weak	Moderate	↑	In the majority of LGs reviewed aggregate expenditure has been within 10-15% of what was budgeted. Aggregate expenditures are fairly close to approved budget, largely because budgeted grants from central government, which make up the vast majority of local government, are received and largely spent. However local revenue and donor funds, which tend not to be realized, are the major source of under expenditure against the budget. Those local governments with better outturns for local revenues and donor funds delivered better scores in terms of aggregate expenditure.
PI–2	Composition of expenditure out-turn compared to original approved budget	?	Weak	?	There are large deviations, usually caused by low local revenue and donor outturns (see difficulties in PI1 for CG) relative to the budget. In most cases sectors are able to spend conditional grant resources in full because they have established workplans and are informed when funds arrived, although there are cases of absorption problems. Local revenues are not spent in accordance to the budget, but usually to cater for immediate spending pressures. This ultimately means that the budget is not adhered to during the financial year.
PI–3	Aggregate revenue out-turn compared to original approved budget	Weak	Weak	→	In all local governments local revenue collections were below 90% of budgeted amounts. Local revenue projections tend to be over-ambitious although less a minority of local governments have improved realism. Projections frequently relate to what could be technically possible based on census results, rather than past experience.

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
PI–4	Stock and monitoring of expenditure payment arrears	Weak	Weak	→	Data available on the average stock of arrears showed them amounting to an average of between 5% and 10% of expenditures. However formal data on arrears is not available in all local governments, and when available, it is unlikely that the data is comprehensive or reliable in many local governments.
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI–5	Classification of the budget	Moderate	Strong	↑	A standard budget classification system, using the new Chart of Accounts has been agreed for local governments. A standard presentation of the budget is also part of the Budget Formulation Guidelines. This is compatible with GFS COFOG and economic standards up to the sub-function level. These formats and the COA are not uniformly being applied in the local governments assessed, however local governments using older budget presentations are still able to present the budget in a way compatible with major function and economic classifications.
PI–6	Comprehensiveness of information included in budget documentation	Weak	Moderate	↑	Budget estimates now tend to be fairly comprehensive, including summary tables, information on previous years, and are usually balanced. The do not include all the information desirable, and there tends to be an absence of explanations to deviations in budget estimates, information on debt stock and information on assets.
PI–7	Extent of unreported government operations	Moderate	Moderate	→	Although it is difficult to quantify unreported local government operations they are unlikely to exceed 10% of budgeted expenditures. (Information on donor funded operations not assessed for LGs)
PI–8	Transparency of inter-governmental fiscal relations	Weak	Moderate	↑	Most funds transferred to lower local governments (LLGs) are transferred according to objective formulae (e.g. LDG, PMA, NAADS), or according to clear revenue sharing rules Most LLGs where happy about the timing of when they received IPFs for central grants, well in advance of the budget process. However in some cases, especially with respect to local revenue sharing, higher and lower local governments were said not to remit their funds to each other in time or in full. There is, however little or no consolidated fiscal information of expenditure by LLGs within Higher Local Governments (HLGs).

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
PI–9	Oversight of aggregate fiscal risk from lower local governments	Weak	Weak	→	There is either limited or no monitoring of lower local governments fiscal position by higher local governments. Internal audit remains poorly facilitated to carry out this role. However, with the exception of Kampala's divisions (Nakawa accounts for 50% of arrears), it is unlikely that significant liabilities being incurred at that level.
PI–10	Public access to key fiscal information	Moderate	Moderate	→	Information on funds for service delivery (UPE transfers at schools, LGDP funds) is the most widely available, followed by contract awards, and some elements of budget documentation such as LGDP workplans.
	C. BUDGET CYCLE				
	C(i) Policy-Based Budgeting				
PI–11	Orderliness and participation in the annual budget process	Weak	Moderate	↑	A budget calendar, which is generally adhered to in local governments exists in the budget guidelines, and allows reasonable time for preparation of estimates, although there are delays in its application. The calendar is not always translated into a budget call circular by LGs. The BFP, which includes ceilings although they may not be very explicit, are discussed at a budget conference and are meant to be approved by the council executive. Sector committees of council tend to be involved in sector budget submissions. In most local governments the budget is approved before the start of the financial year or in the first month, although slippage has occurred recently.
PI–12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Weak	Moderate	↑	The LGBFP includes a three year rolling MTEF, and is prepared by local governments, and they are sometimes linked to the annual budget, which also includes medium term projections. No analysis of arrears is carried out by local governments, who are required to prepare a balanced budget. Those local governments which take out loans are supposed to prove that their cashflow can support the repayment of loans before the MOLG approves, however there is no requirement for this to be repeated subsequently. The DDP usually includes crude efforts at costing departmental strategies, however the linkage between the DDP and BFP is not always strong, and O&M costs are inadequately budgeted for.

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
	C(ii) Predictability and Control in Budget Execution				
PI–13	Transparency of taxpayer obligations and liabilities	Weak	Weak	→	Although the national legislation for local taxation is relatively clear, it leaves substantial discretion in the application of local taxes. Most local governments do prepare tax schedules, however the public have limited access to these, and knowledge of their taxpaying liabilities. The only example of a tax appeals mechanism existing was with respect to property tax in Kampala.
PI–14	Effectiveness of measures for taxpayer registration and tax assessment	Weak	Weak	→	The taxpayer registration system tends to be weak across local governments, and there are few controls and links between registers. There are few penalties for non compliance with registration and tax declarations, whilst there is little or no investigation, whilst the tax auditing carried out is limited to internal audit, which is weak.
PI–15	Effectiveness in collection of tax payments	Weak	Weak	→	Local governments make no efforts to collect tax arrears. Usually tax revenues are collected and shared between levels of local government at least monthly, although sometimes higher local governments do not remit their share in full, or lower local governments to not bank revenues collected in full. Although collections are reconciled with the cashbook monthly, reconciliations between assessments, collections, arrears and receipts are never done.
PI–16	Predictability in the availability of funds for commitment of expenditures	Weak	Weak	→	As a rule cashflows are not forecast in local governments (although Kabale district is a notable exception). Departments also tend not to be provided with resource ceilings from the finance office in advance, although they are told when conditional grant funding arrives. Budget adjustments tend to be infrequent, but when they are done procedures tend to be adhered to.
PI–17	Recording and management of cash balances, debt and guarantees	Weak	Weak	→	Few local governments have bank loans. If this refers to arrears, then the updating of debt records is either irregular or does not happen at all and the comprehensiveness of the records that exist is questionable. Consolidation of cash balances tends not to occur in local governments. Local governments issue guarantees without approval from any higher body, and the fiscal implications are not recorded. Loans have to be approved by the Minister of local government, and LGs have to demonstrate that their cashflow can support repayment. There is no unified overview mechanism.

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
PI–18	Effectiveness of payroll controls	Weak	Moderate	↑	As noted above the local government payroll is maintained centrally. The timeliness of processing changes to personnel records and the payroll has improved over time, and in most local governments the delay is less than three months, although in some instances pay change reports take longer to be processed. Paper controls and authority for changes in the payroll are relatively clear, however, monitoring and full audits of the payroll, beyond the statutory LG audit are not undertaken regularly.
PI–19	Competition, value for money and controls in procurement	Weak	Moderate	↑	In most local governments explicitly competitive procedures were used almost exclusively (>75%) and where not information is provided on the tendering process used. However it is unlikely that these processes are truly competitive in practice. In some, but not all local governments justification is not always provided for less than competitive procurement processes. There was no functioning complaints mechanism in any of the local governments, and few contractors were ever blacklisted, despite widespread concern about the quality of works.
PI–20	Effectiveness of internal controls for non-salary expenditure	Weak	Moderate	↑	Commitment and expenditure controls usually exist but are not sophisticated. In most cases local governments control commitments by approving them only when cash is available, however utility bills are often allowed to accumulate, and sometimes commitments are approved when cash is not available. Few local governments have fully fledged commitment control systems, although Kabale again is the notable exception. Internal controls, which are laid out in the Local Governments Financial and Accounting Regulations (LGFAR) are largely relevant, although they provide for pre-audit of transactions. Internal audit remains weak. Increasingly the rules for processing and recording transactions are adhered to in the majority of transactions, although circumvention/emergency procedures are not uncommon.
PI–21	Effectiveness of internal audit	Weak	Moderate	↑	The quality of internal audit is weak in the vast majority of local governments, although there are some slight improvements. Internal audit covers higher local government departments, and most local governments, however the focus tends to be on pre-audit rather than systemic issues. Reports are usually issued quarterly, as required in the LGFAR. Recommendations are often ignored, but some local governments do take them more seriously. Recommendations to do with lower local governments are more readily undertaken.

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
	C(iii) Accounting, Recording and Reporting				
PI–22	Timeliness and regularity of accounts reconciliation	Weak	Moderate	↑	Monthly bank reconciliations, a legal requirement, have been carried out in an increasingly timely manner, usually within a fortnight of the close of the month. This is undermined by the irregular clearance of advances, where balances are often brought forward.
PI–23	Availability of information on resources received by service delivery units	Weak	Weak	→	In local governments there is no comprehensive data on funds received by primary schools, although information is available on funds transferred to schools. In health data is reported on funds received down to the health centre III level in most local governments, and reported on quarterly, however this does not include resources received in kind.
PI–24	Quality and timeliness of in-year budget reports	Moderate	Moderate	↑	Prior to 2000/01 budget reporting by local governments was non existent. Budget reporting systems at present make it difficult to compare expenditures against administrative headings, although it is possible by sector department, if one discounts discretionary revenues. Reporting is on expenditures only. Monthly financial statements are prepared, as are quarterly reports for all PAF conditional grants. These are prepared within a month of the reporting period. Although there may be some inaccuracies in budget reports, they remain useful. The quality of performance data in PAF reports is difficult to verify.
PI–25	Quality and timeliness of annual financial statements	Weak	Moderate	↑	Often financial statements are incomplete, not covering assets and liabilities, all revenues, etc. Final accounts are meant to be submitted by local governments within three months of the financial year, and an increasing proportion are being submitted on time to the Auditor General. There are issues in the standards being applied, as set out in the LGFAR.

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
	C(iv) External Scrutiny and Audit				
PI–26	Follow-up of external audit	Weak	Weak	→	Audit reports are submitted to the Local Government PAC, and formal responses are made to audit queries in most local government. But beyond this follow up tends to be weak in all but a small minority of local governments.
PI–27	Legislative scrutiny of the annual budget law	Weak	Moderate	↑	Review of both revenues and expenditures are carried out by the councils. Both sector committees and the finance committee are involved in reviewing budget proposals and workplans, and this tends to be in advance of the preparation of the detailed budget estimates, at the time of the BFP. However once the detail budget proposals are finalised, there is less than a month for the proposals to be reviewed, and full council is only involved at the time of the reading of the budget, and the debate is often limited, only being a rubber stamping exercise. Rules regarding in-year amendments exist and are usually adhered to. Full council is supposed to approve reallocations and supplementaries, however it is not uncommon for the supplementary budget to be approved ex post at the end of the financial year.
PI–28	Legislative scrutiny of external audit reports	Weak	Weak	→	Public accounts committee work is several years behind. In depth hearings do take place with responsible officials but the adequacy of the process is limited by the capacity of committee members to understand the audit reports. Only when the PAC reports have been tabled to Parliament do they become publicly available. Since the presentation of the PAC reports are so behind, the issuing of the TMs are also way behind schedule, therefore undermining the effectiveness of the process. The PAC can advise the Minister of Finance to take appropriate action against public officers who have contravened any Act or abused their position, but constitutionally the legislature has no executive powers. According to the latest treasury memorandum (the MFPED's official response to the PAC report [TM]) (1997), recommendations are followed up, but the tardiness of the reports make them ineffectual.

No.	Subject	Status 2000	Status 2005	Trend ↑→↓	Comments and Analysis
	D. DONOR SUPPORT TO LGs				
D–1	Predictability of Donor Project Support to Local Governments	Weak	Weak	→	Although more donor project funding channelled to local governments appears on-budget, it is highly unreliable, whether funded by the donor directly of via line ministry projects. Outturns are often well below fifty percent of budgeted amounts. Meanwhile in-year disbursement of donor funds are ad hoc, and depend on the project, and are not based on agreed schedules.
D–2	Financial information provided by donors for budgeting and reporting on project aid	Weak	Weak	→	Whilst some donor-funded projects provide estimates, they tend not to be far in advance of the beginning of the fiscal year, or not in sequence with the financial year at all. Information on project funding is not always provided directly through the accounting officer, instead directly to the head of department or service provider. Some donors do not provide information at all, whilst NGOs often do not divulge financial information even when working directly with local government institutions. Few efforts are made to ensure financial information is consistent with local government budget classifications.
D–3	Proportion of aid to local governments that is managed by use of national procedures	Moderate	Moderate	↑	A small minority of donor project funding use government reporting and accountability systems. Instead projects use their own reporting and accountability systems. However it is important that, after 1997, donors have shifted a large share of direct district and service delivery support from project to notionally earmarked budget support.

Key Source Documents on PFM in Uganda

37. The bulk of the analysis of public expenditure is based on the authors' own analysis of PFM using MFPED budget data. The remainder of the analysis draws from five main sources. The main source for the PEFA indicators were draft reports of the aforementioned PEFA PFM assessment which was commissioned by the GOU and the donor PFM group in mid 2005, and the PEFA tables are an adaptation of the summary tables in those reports. The tables were supplemented with information from the two AAP HIPC tracking studies carried out jointly by the IMF and the World Bank in 2001 and 2004, and other past PFM studies to enable comparison over time. The other major source was the Uganda Country Integrated Fiduciary Assessment, which was carried out in 2004 and brought together the CPAR, CFAA and the PER processes for the first time, which was itself loosely structured around the emerging PEFA framework.

ANNEX 5: SUMMARY OF CAUSALITY FINDINGS

1. In the Figure "Key to Causality Map" (Figure 5.1), links between elements at the different levels have been "keyed". The findings related to each link and PGBS effect on this link are recorded in Table 5.1 "Causality Map: Summary of Findings on Causality" in an entry which refers to the "key" of the link on the map. Each entry in the table also indicates the Chapters in which related findings are to be found (mainly in the "Principal Causality Chain" section of the Chapters in Part B).

2. A few "cross-cutting features" affecting potentially all the causality chains have been "keyed" too, namely feedback and transaction costs. Corresponding entries in Table 5.1 present an overview of how these features have affected the causality chains and PGBS effects on these on the whole.

Figure 5.1: Key to the Causality Map

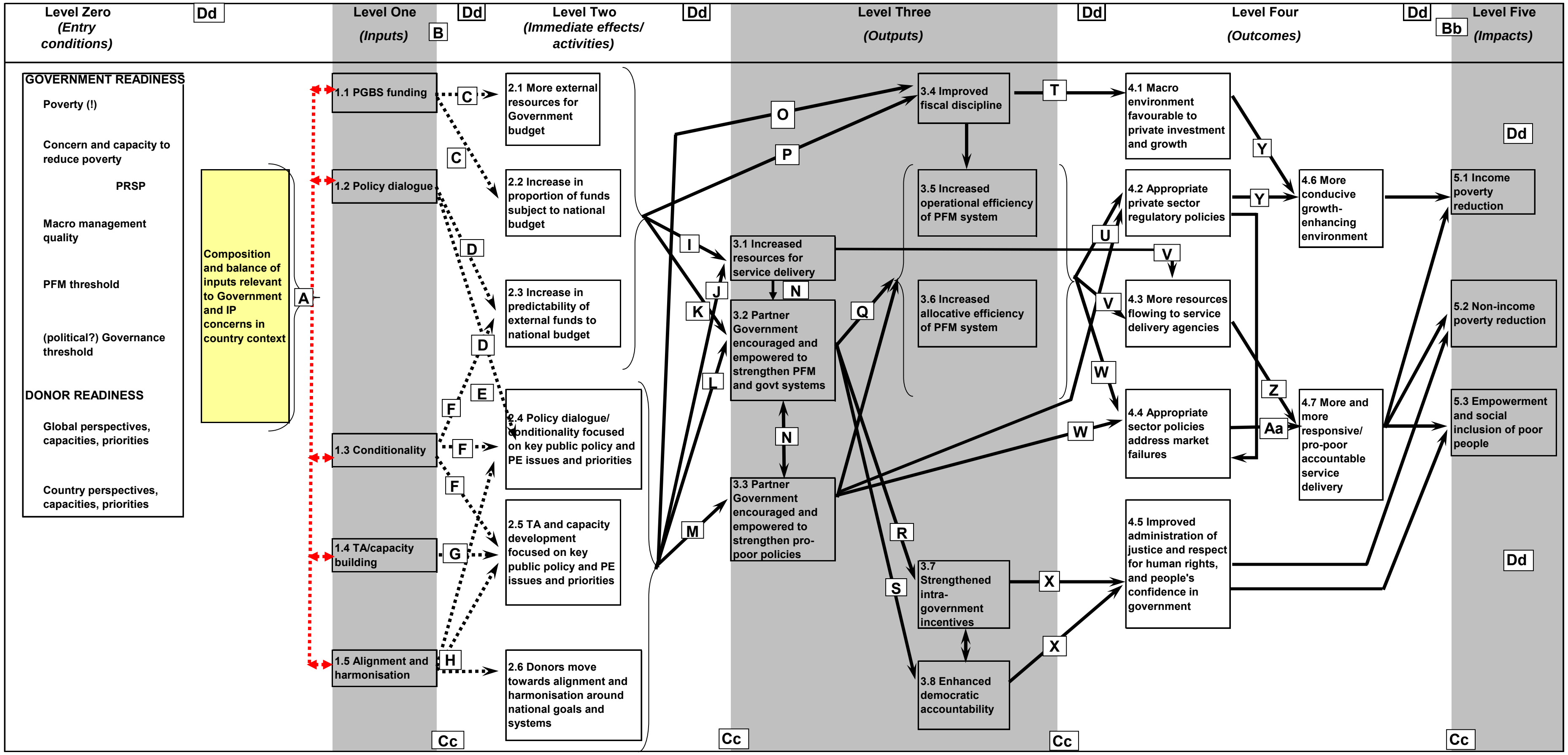


Table 5.1: Causality Map – Summary of Causality Findings in Uganda

A	**Level 0 → Level 1** *The design and its relevance.*
	Relevant design, which has evolved over time. Initial weakness in analysis of political context has led to recent difficulties in engaging and responding to political issues, and a lower degree of political ownership. All IPs explicitly treat PGBS as complementary to other modalities. All inputs present, but TA/CB the least integrated of them. [B1]
B	**Level 1 → Level 2** *Overview of inputs to immediate effects*
	Significant effects from Level 1 to Level 2 for all inputs (TA/CB the least distinct); important wider effects in changing the environment within which other aid modalities operate.
C	**1.1 → 2.1/2.2** *PGBS effect on total external resources for budget and the proportion of funds subject to the national budget.*
	Both links are strong. PGBS has become a major share of ODA and a large proportion of GOU budget, thus instrumental in a large increase in the share of donor funds on budget. [B1, B3]
D	**1.2/1.3 → 2.3** *Effects of dialogue and conditionality on predictability of external funding to the budget.*
	PGBS started off less predictable than other modalities, but is now more so, with a higher disbursement rate. Durable dialogue structure has enabled GOU to plan ahead despite short time horizon of donors' formal commitments.
E	**1.2 → 2.4** *Increased focus of dialogue on key public policy and expenditure issues.*
	Strong link, enhancing sector dialogue mechanisms, and helping to create cross-sector dialogue, facilitated by pre-existing PEAP and MTEF processes. [B1, B2] Dialogue has also helped focus TA and capacity-building interventions on these areas, however insufficient attention paid to the implications for local governments.
F	**1.3 → 2.3/2.4/2.5** *Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.*
	Implicit political conditions created some uncertainty for GOU. Although governance conditions now clearer, the implications on funding of failure to achieve these and other conditions are not clear. Areas of focus in PRSC matrix and sector conditions do have effect in prioritising the agenda of dialogue; PGBS has raised the importance of, and attention to, TA/CB for PFM, in particular through focusing on and linking support to PRSC and sector actions. [C4, C5]
G	**1.4 → 2.5** *PGBS immediate (direct) effect on TA/CB*
	TA/CB inputs have not been tightly specified part of PGBS "package", though PGBS designed to complement other TA/CB inputs. Instead parallel TA/CB inputs have been linked through PGBS dialogue and conditionality. Scope for strengthening of this link. [B1, B4, C3]
H	**1.5 → 2.4/2.5/2.6** *Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.*
	Moderate to strong H&A effects despite the fragmented nature of PGBS funding; the H&A that are inherent in PGBS itself have been reinforced by demonstration effects on other aid. Quality of GOU plans and budgets, and strength of PFM reform programme have provided strong basis for policy and system alignment. Relatively less influence on explicit TA/CB. [B1, B2]
I	**2.1/2.2/2.3 → 3.1** *Increased resources for service delivery (flow-of-funds effects)*
	Strong increase in funds for basic service delivery; this was more the result of funds on budget. (Flow of funds effects more important that dialogue, etc. (J) because government anyway committed to basic services, but additionality of Poverty Action Fund was an important signal for several years.) [B3]

J	**2.4/2.5/2.6 → 3.1** *Increased resources for service delivery (dialogue/TA/H&A effects)*
Dialogue, sector processes, and the Poverty Action Fund innovation, were important in attracting on-budget donor funds, which enabled GOU to shift its expenditures towards the preferences first established in the 1997 PEAP. (So this link also seems to be an important feedback loop to donors.) [B3]	
K	**2.1/2.2/2.3 → 3.2** *Flow-of-funds effects on empowerment to strengthen PFM, etc. systems*
Strong empowerment effects. Funds on-budget have increased the attention spending institutions and parliament pay to the MFPED-led medium term planning and budget systems, as well as sector policy processes, and the increasing budgets of local governments haves attracted capacity. This has put Government in the driving seat for reform, but improvements have not been automatic. [B3, B4]	
L	**2.4/2.5/2.6 → 3.2** *Dialogue/TA/ H&A effects on empowerment to strengthen PFM, etc.*
Empowerment effect of flow-of-funds (Ja) has been reinforced by donor participation in planning and budgeting systems through PERs, Budget Framework Papers, sector groups, etc. (which embrace non PGBS as well as PGBS aid). Policy dialogue, TA/CB have supported the PFM and sector reforms as well, helping to improve the quality of PFM systems (although the focus has not always been strategic). However, national sector focus has resulted in rigidities at local government level, undermining the empowerment effects on local governments. [B3, B4]	
M	**2.4 → 3.3** *Dialogue encourages and empowers strengthening of pro-poor policies*
Strong link found at sector and cross-sector level, although GOU had pro-poor agenda to begin with. [B5]	
N	**3.1 → 3.3** *PGBS funding encourages and empowers strengthening of pro-poor policies*
PGBS funding has had a moderate effect by helping to increase policy coherence by reinforcing the interest of sector agencies in participating in the pro-poor policy processes. [B5]	
O	**2.4/2.5/2.6 → 3.4** *Non-flow-of-funds effects on fiscal discipline*
Discipline embedded before PGBS, so a supporting influence, not a decisive one. [B6]	
P	**2.1/2.2/2.3 → 3.4** *Flow-of-funds effects on fiscal discipline*
Discipline embedded before PGBS, but PGBS funding, by acting as a long term predictable source of foreign exchange, increasing the resource envelope and bringing funds on-budget makes MFPED task easier. [B6]	
Q	**3.2 → 3.5/3.6** *PFM empowerment of government → improved allocative and operational efficiency*
Strong link found: allocative efficiency shown in shift to pro-poor expenditure in line with GOU strategy; operational efficiency in maintaining wage/non-wage balances, increasing the proportion of funding to service providers; improving the efficiency of the development budget; and reducing public administration as a share of the budget. Overall efficiency has been partly offset by increase in the cost of budget financing due to domestic interest costs. [B3, B6]	
R	**3.2 → 3.7** *Government empowerment to strengthen systems → stronger intra-government incentives*
Strong link found as on-budget financing strengthens line ministry and district incentives to operate through national planning and budget channels. [B4]	
S	**(2.2 →) 3.2 → 3.8** *Government empowerment to strengthen systems → enhanced democratic accountability*
Bringing funds on-plan and on-budget increased the interest of parliament in the budget, and broadened the scope of national democratic accountability institutions (auditor general, parliament, elected councils) but effect has been weaker than other effects because most improvements are technocratic, accountability systems are weak, and donors have tended to overshadow the national accountability mechanisms. [B4]	

T	**3.4 → 4.1** *Link from fiscal discipline to growth-enhancing macro-environment.*
On balance a slight positive effect, partly offset by increased interest rates resulting from sterilisation. [B6]	
U	**3.3/3.5/3.6 → 4.2** *Better PFM system and Government empowered to strengthen policies → Appropriate private sector regulatory policies*
A very slight positive effect in the later years of PGBS as emphasis in the PGBS dialogue shifted towards the private sector. [C2]	
V	**3.1/3.5/3.6 → 4.3** *Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies*
A strong effect. Increased resources allocated to service delivery, fuelled by PGBS, have reached service delivery agencies.	
W	**3.3/3.5/3.6 → 4.4** *Better PFM system and Government empowered to strengthen policies → Appropriate sector policies address market failures*
As with U, a slight positive effect, as emphasis in the PGBS dialogue shifted towards the private sector and agriculture.	
X	**3.7/3.8 → 4.5** *Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights*
Overall weak effect. Some effect on local accountability inasmuch as PGBS has been major facilitator of decentralisation of service delivery, although conditions from the centre have undermined this. Little discernable effect on administration of justice and human rights. [B8, Annex 6]	
Y	**4.1/4.2 → 4.6** *Influence of macro-environment and private sector policies on environment for growth*
Benign effect of PGBS, but this has not been primary focus of policy. Increasing attention to growth and private sector issues within framework of national policy and PGBS dialogue. [C2]	
Z	**4.3 → 4.7** *More resources reach service delivery agencies → more and more responsive pro-poor service delivery*
More resources do reach service delivery agencies. [B3, B7] Increasing quantity, but less evidence of increased quality and responsiveness to the poor, though this features in dialogue. (dilemma between quantity and quality of services) [B7]	
Aa	**4.4 → 4.7** *Influence of sector policies on pro-poor service delivery*
PGBS effects on planning and budgeting systems have helped to strengthen system of policy review and links between policy, expenditure and service delivery; thus far, nevertheless, quantity effects dominate quality effects in delivery. [B7]	
Bb	**Level 4 → Level 5** *PGBS outcomes → poverty impacts*
Significant effect on non-income poverty through expansion of basic services; income poverty progress has been patchy – undermined by continuing conflict in northern Uganda, and recent apparent setback in overall income poverty reduction. It would be wrong to expect a short-term mechanical relationship between aid/PGBS and income poverty (but this means aid should not claim undue credit for past positive correlation between aid flows and poverty reduction). Empowerment effects are weak, despite the effects of decentralisation on participation, as accountability of government in general and the administration of justice and human rights remain weak. [B8]	
Cc	**(all levels)** Transaction Costs
Significant transaction costs remain, on both sides, of negotiation and management of PGBS. Nonetheless, WB costs per dollar disbursed are lower than for other operations; GOU management costs in spending PGBS funds are substantially lower than for aid that is required to follow separate donor procurement rules, etc. [B3, C4]	
Dd	**(all levels)** Feedback
Significant feedback is provided for in PGBS dialogue and review structures, and reflected in adaptations to experience. However, feedback loops more effective in technical and service delivery arenas, than in the corruption, human rights and political spheres. Scope for strengthening monitoring at intermediate levels of results chains, and more attention to issues affecting long-term sustainability of PGBS. [B9]	

ANNEX 6: DECENTRALISATION AND PGBS IN UGANDA

Annex 6: Contents

Acronyms

BOP	Balance of Payments
CAO	Chief Administrative Officer
CB	Capacity building
CG	Central Government
Danida	Danish International Development Agency
DCI	Development Cooperation Ireland
DDSG	Decentralisation Donor Sub-Group
DFID	Department for International Development (UK)
DSP	Decentralisation Support Programme (DFID)
EC	European Commission
EEF	Enhanced Evaluation Framework
EFMP II	Second Economic and Financial Management Project
FDS	Fiscal Decentralisation Strategy
FY	Financial Year
GBS	General Budget Support
GOU	Government of Uganda
G-Tax	Graduated Tax
HIPC	Heavily Indebted Poor Countries
IFMS	Integrated Financial Management System
JARD	Joint Annual Review of Decentralisation
LG	Local Government
LGBC	Local Government Budget Committee
LGDP	Local Government Development Programme
LGFC	Local Government Finance Commission
LGROC	The Local Government Releases and Operations Committee
LLG	Lower levels of government
LM	Line Ministry
LOGFIAS/ LOGFIS	Local Government Financial Information Analysis System
MDG	Millennium Development Goals
MOES	Ministry of Education and Sport
MFPED	Ministry of Finance, Planning and Economic Development
MOLG	Ministry of Local Government
MTEF	Medium Term Expenditure Framework
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PFM	Public Finance Management
PMA	Programme for the Modernisation of Agriculture
PRSC	Poverty Reduction Support Credit
SDU II	Support to Decentralisation in Uganda (USAID)
SWAp	Sector Wide Approach
SWG	Sector Working Group
TA	Technical Assistance
ULAA	Uganda Local Authorities Association
UGS	Ugandan Shillings
URA	Uganda Revenue Authority
USD	US Dollars
IPF	Indicative Planning Figures

A. Context of Partnership General Budget Support (PGBS) and Decentralisation

A1. Introduction

1. The achievement of the Millennium Development Goals (MDGs) in Health, Education, Water and Sanitation requires a huge scaling up of basic service delivery in most developing countries. In many of these countries, including Uganda, the responsibilities for delivering most of these services have been decentralised to local governments (LGs). This process in Uganda has been rather far reaching, ambitious and advanced, but it has faced a number of challenges of relevance for the evaluation of General Budget Support (GBS).[12]

2. Simultaneously with the decentralisation process, spearheaded by the Constitution, 1995, and the Local Government Act, 1997,[13] the donor support was increasingly moving towards the provision of GBS, and more programmatic types of aid to support the expansion of service delivery nationally. However, there has been limited understanding of how such aid instruments impact on LGs, their ability to deliver services, and the overall objectives of the decentralisation.[14]

3. Traditional donor projects, and national programmes with their vertical institutional arrangements, and parallel financial management and accountability requirements, can often conflict with LG systems, plans, budgets and accounting procedures. They can stretch limited existing local capacity, and ultimately undermine local accountability – one of the key rationales for devolved service delivery. In countries where there has been a move towards GBS, there has often been inadequate attention to the mechanisms for financing LG service delivery, and this can result in a centralising of budget allocations, and/or inappropriate procedures for fiscal decentralisation, instead of an expansion of, and improved efficiency in, the financing of LG service delivery.

4. In the context of the MDGs and GBS, the challenge has been how to develop coherent and comprehensive grant systems to LGs, with intelligent use of a balanced "menu" of unconditional and conditional grants, earmarked towards poverty reduction priorities and with proper *incentives* to utilise the increased funds efficiently.[15] Governments, and donors, might use the grant systems, rather than parallel financing mechanisms, to target resources towards the achievement of poverty reduction goals. Simultaneously, governments – supported by donors – need to sharpen their focus on strengthening democratic institutions, and on creating the mechanism for reinforcing local accountability and sustainability in service delivery.

5. The way these issues have been handled in Uganda, in terms of the links between the GBS and the decentralisation process, is the subject of this annex. It highlights the challenges many countries will face in the reconciliation of various objectives such as national sector targets, fast and controlled disbursement of funds, and the wider decentralisation objectives, such as local empowerment, autonomy, democratic participation, ownership and accountability and the interfaces between decentralisation and deconcentration.

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[12] Please refer to the Main Country Report for a definition of GBS.
[13] See Steffensen, Tidemand and Ssewankambo.: "A *Comparative Analysis of Decentralisation in Kenya, Uganda and Tanzania*", Final Synthesis Report, August 2004, and the Country Report for Uganda, August 2004, for a detailed analysis of the decentralisation experiences in Uganda.
[14] Most studies have focused on only the links between SWAps and decentralisation.
[15] Steffensen, Tidemand and Ssewankambo op. cit. 2004.

6. Uganda has been characterised by a fast decentralisation process implemented in parallel with the development of the GBS.[16] GBS indirectly finances a large part of LG budgets, and the Government of Uganda (GOU) and donors have made use of LGs as windows for channelling funds to the service delivery units.[17] The LG sector accounts for more than 30% of the total public expenditures, and over 90% of the total funding comes from central government (CG) grants, largely funded by GBS.[18]

7. This annex will review the experiences from the linkages between GBS (funding and modalities) and decentralisation in Uganda, using the part of the Enhanced Evaluation Framework (EEF) and the evaluation questions, which are relevant for the decentralised components of service delivery, to track the impact of GBS on LGs' possibilities for being effective and efficient authorities in service delivery and poverty alleviation – the GBS impact on the implementation of GOU's decentralisation objectives.

8. The decentralisation process in Uganda has been a rather unique, radical and fast reform with an originally strong commitment from the top political level, and based on the particular historical experiences from indirect rule, failure of the previous centralised system in the 1980s and the political belief in decentralisation as a way to involve and get political support from people and to improve public services.[19] The objectives have been expressed by the Decentralisation Secretariat under the Ministry of Local Government (MOLG) as:

> Decentralisation is a democratic reform, which seeks to transfer political, administrative, financial and planning authority from the centre to local government councils. It seeks to promote popular participation, empower local people to make own decisions and enhance accountability and responsibility. It also aims at introducing efficiency and effectiveness in the generation and management of resources and in the delivery of services.[20]

9. The decentralisation experiences from Uganda, although they emerged within a special historical and political context, are of interest for other countries, which have experienced and/or are going to face a parallel process of decentralisation and GBS.

10. This annex reviews the process from the inputs, in terms of fiscal and technical assistance (TA), etc. to the final outcomes.

11. The support modalities within the period 1994 to 2004 have evolved from:

(a) the pre-Poverty Eradication Action Plan (PEAP): 1994–1997, with macro stabilisation and structural adjustment and balance of payments (BOP) support, some projects and limited decentralisation to

(b) PEAP 1: 1997–2000: establishment of Medium Term Expenditure Framework (MTEF), early Sector Wide Approaches (SWAps), and Poverty Action Fund

[16] The GBS in Uganda covers: 1) notionally earmarked sector budget support, 2) PAF General Budget Support and 3) full General Budget Support, see the Main Country Report for further definitions.
[17] See Williamson, Tim and Sudharshan, Canagarajah: *"Is there a Place for Virtual Poverty Funds in Pro-Poor Public Spending Reforms? Lessons from Uganda's PAF*, Development Policy Review, 2003.
[18] See Steffensen, Tidemand and Ssewankambo, Volume II, op. cit, for more data on the trend in LG finance in Uganda.
[19] Steffensen, Tidemand and Ssewankambo, 2004, op. cit. Chapter 2. The wish to use decentralisation as a tool to promote citizen involvement and ensure popular/political support is still valid and perhaps reflected in the objectives behind the continued establishment of additional districts (most recently 20 districts have been added) and the wish to involve the lower levels of government in planning and service delivery.
[20] Republic of Uganda, the Decentralisation Secretariat 1994: *Decentralisation in Uganda – The Policy and its Implications*.

(PAF), Heavily Indebted Poor Countries (HIPC) and sector and PAF budget support, and fast decentralisation of functions and finance, to

(c) PEAP 2: 2000–2004 with increased number of SWAps, Public Financial Management (PFM) reform, GBS and partnership principles and further deepening of decentralisation and

(d) PEAP 3: 2004 –: emerging governance concerns, see the Main Country Report.

This annex focuses particularly on (b) and (c). However, the final sections briefly outline some of the future issues.

12. The annex is based on a review of extensive materials on decentralisation and GBS,[21] field trips to Mubende and Kibale Districts,[22] and consultations with various stakeholders at the central level. Their valuable inputs are highly appreciated.

A2. Funding of LG Services and Evolution in the Support to LGs

Funding

13. The funding of LG service has been greatly affected by the move towards GBS. Although the majority of the GBS is not used to finance LG budgets, the majority of the funds available for LGs' services are financed by grants (rising from about 65% of the total LG budget in 1997/98 to about more than 90% in 2003/04), and a large part of these grants are funded indirectly by the GBS. This is particularly the case after the establishment of the PAF in 1998, when Uganda qualified for the HIPC initiative and where resources from debt relief were pooled with donor budget support, and government funds within a "virtual ring-fenced" funding arrangement.

14. The GBS has built on the existing arrangements and was "delivered" in synergy with the HIPC and the other support arrangements. In the beginning of this process, some funds were earmarked in sector budget support towards e.g. the School Facility Grant and Primary Health Care, but these have gradually moved towards general support for the PAF and/or for the general budget.[23] The support was closely linked to the development of the SWAps in Education, Health, Roads, etc. as a framework for the implementation of the PEAP objectives[24] and the Poverty Reduction Strategy Credits (PRSCs), starting from 2001, with related undertakings and performance benchmarks and MTEF ceilings.

15. The PAF *ensured additional funding* and safeguarded expenditures on areas of particular importance for poverty alleviation (achievement of the PEAP objectives), such as primary education, primary health, agriculture, etc. The PAF increased from less than UGS 250 billion in 1998/99 to more than UGS 600 billion in 2003/04, and the majority (about 75%) were allocated to LGs as conditional grants.[25] Together with other government/donor funds (outside the PAF area), this window caused a significant increase of funds for inter-governmental fiscal transfers from UGS 118 billion in 1995/96 to budgeted UGS 864.9 billion in 2005/06 (see table below).

[21] See list of literature, Appendix No. 1 and the bibliography in the Main Country Report on Uganda.
[22] The sample of districts was not supposed to be fully representative for all districts in Uganda, and findings from other sources have supplemented the Study. However, the districts were chosen to reflect various experiences from a district without much donor support, (no district support programmes), but with budget support from LGDP-I and II – Mubende District, and a district with a significant support from bilateral programmes – Kibale District (supported by Ireland Aid).
[23] See Annex 3B.
[24] See Kasumba and Land: *"Sector-Wide Approaches and Decentralisation – A Case Study for Uganda, January 2003",* for a review of the links between SWAps and decentralisation.
[25] See Williamson and Sudharshan, 2003, op. cit, p. 457 for further details.

Table 6A.1: Development in the Grants and Composition – Billion UGS

Type/ Year	FA 95/96	% Share	FA 98/99	% Share	R 02/03	% Share	B 03/04	% Share	B 04/05	% Share	B 05/06	% Share
UCG	40.6	34.5	64.4	23	76.9	11.7	82.8	11.2	87.5	10.9	119.7	13.8
CG	77.2	65.5	202.1	71	428.1	65.1	467.8	63.1	527.0	65.4	550.4	63.6
CGD	0	0	18.8	7	147.9	22.5	187.4	25.3	187.4	23.3	191.4	22.1
EQ	0	0	0	0	4.2	0.6	3.5	0.5	3.5	0.4	3.5	0.4
Total	**118**	**100**	**285.2**	**100**	**657.1**	**100**	**741.5**	**100**	**805.5**	**100**	**864.9**	**100**

UCG: Unconditional Grants, CG = conditional grants, CGD: Conditional Grants – Development and EQ: Equalisation grants. FA = Final Accounts, Releases (provisional FA), B = Budget

Source: Composed of figures from Decentralisation Secretariat, MOLG, MFPED, LGFC and Steffensen, Tidemand and Ssewankambo, Volume II, op. cit. See Annex 5.3 for the method of break-down in various types of grant.

Dialogue

16. From the onset of this funding system in 1995/96, the dialogue between the donors/central and LGs was weak, and the LGs felt that their constitutional right to be involved in the determination of conditionalities was circumscribed. The LGs also feel that they have been inadequately involved in the dialogue on the GBS, particularly in the discussions of the PRSC matrixes.[26] Furthermore, according to many respondents, the rather limited treatment in the first PEAP of the decentralisation objectives and issues has played a constraining role in the establishment of clear linkages between decentralisation and the GBS.

17. The PRSC (PRSCs 1-4) dialogue and benchmarks focused on certain key LG public expenditure issues, such as completion of accounts, strengthening of the accounting staff, participatory approaches to planning, LG procurement, status of audit reports, fiscal transfer modalities (Fiscal Decentralisation Strategy – FDS) and linkages to the sector targets. But stakeholders from the LG sector, including the donor representatives in decentralisation, are of the opinion that important issues such as LG own-source revenues, the structure of the LG system, political accountability, etc. have received inadequate attention. It is expected that the future PRSCs will address some of these issues aligned with the new PEAP 2004/05–2007/08.

Conditionality and the Fiscal Decentralisation Strategy (FDS)

18. The fact that more than 75% of PAF funds were utilised on conditional grants to LGs led to a rapid increase in funding of LG services, which would probably not have taken place without this arrangement.[27]

19. The PAF has been a key instrument to encourage a move to sector and budget support, because funds are guaranteed for PEAP areas under strict conditions, which have provided the donors and the sceptical Line Ministries (LMs) with a certain confidence that funds are being utilised in the intended areas.

20. While it was recognized that the system was rather efficient in terms of disbursements and delivery on certain targets, it created increasing challenges for decentralisation. The large increase of donor funds, particularly from the PAF with more than 30 conditional grants, typically with their own modalities in terms of planning, budgeting, reporting and accounting, and with increasing earmarking and reduction in the LG possibilities for local priorities (autonomy), lack of involvement of the lower levels of governments and communities in planning and prioritisation in

[26] Based on interviews with ULAA.
[27] Kasumba and Land, 2003, op. cit, and interviews in July 2005.

accordance with the overall aim behind the decentralisation process, caused increasing transaction costs and aroused concerns about efficiency at the local level. GOU and the major donors, therefore, identified an urgent need to streamline and reform the system in 2000/01.[28]

21. Based on a thorough study in 2000/01 of the existing fiscal transfer problems, including detailed recommendations for future reform process, the GOU adopted the Fiscal Decentralisation Strategy (FDS) for piloting in 2002. This strategy aimed at improving LG autonomy/flexibility in the utilisation of grants, enhancing ownership and sustainability. It contained a number of specific initiatives to strengthen, simplify, streamline and harmonise the planning, budgeting, accountability and reporting procedures for the grants.[29]

22. In parallel with the development and expansion of the recurrent and development conditional grants, there was the roll-out and refinement of the Local Government Development Programme (LGDP-I and later LGDP-II) which, by combining a system of performance based non-sectoral funds for development with demand-driven capacity-building grants and monitoring and assessment of LG performance, provided greater autonomy and incentives to improve performance within key generic administrative areas like planning, budgeting, financial management and good governance.[30] The programme was under the PAF window. It was based on a philosophy of gradual increase in autonomy – along with increased capacity and incentives to improve. The LGDP transfer scheme was in the FDS strategy identified as the only grant scheme in accordance with the GOU's decentralisation objectives. The FDS, 2002, recommended that all development grants should gradually be mainstreamed with these modalities for funds, a process that is expected to meet severe resistance from the sector ministries – see below.

TA/Capacity building

23. Capacity building (CB) of the LGs has traditionally been fragmented, piecemeal and poorly coordinated, typically provided through heavy support from donors to individual districts and with high transaction costs.[31] However, the modalities and coordination changed gradually from 2002/03, marked by the following initiatives:

(a) a gradual move away from district support programmes to common CB programmes guided by a national CB framework, development of a CB strategy, and a CB coordination unit in the MOLG, supported by the LGDP;

(b) provision of LGDP CB grants to all LGs to fund improvements in areas such as planning, budgeting financial management, procurement and auditing;

(c) gradual linkage of the TA support to the GBS process, e.g. under the Second Economic and Financial Management Project (EFMPII), and a better coordination of the donor support to central institutions such as support to MOLG, Local Government Finance Commission (LGFC) and Uganda Local Authorities Association (ULAA).

24. The donors have increasingly aligned their support to the GOU overall CB systems and procedures. Although some of the district-support programmes, e.g. the Dutch, Danida and DCI (Development Cooperation Ireland) funded programmes, continued after 2002/03; they were better aligned with the overall national strategy and objectives. There has also been an

[28] See *Fiscal Decentralisation Study – The Way Forward*, January 2001.
[29] Fiscal Decentralisation Strategy, GOU, 2002 and Steffensen and Tidemand, 2004, op. cit.
[30] This programme was based on the experiences from a UNCDF supported District Development Programme covering 5 LGs from 1997-2000.
[31] See the Preparatory Work of LGDP-II, September 2002, MOLG, Annex 3.

increase in TA to LG Public Expenditure issues. However, the support is still not equally distributed across the districts, and it is seen to be inadequate at the LG level.[32]

Alignment and Harmonisation

25. The donor support to LGs service provision has been gradually better aligned with the GOU's systems and procedures, particularly with the development of the LGDP-I and II and the alignment of most of the district support programmes to the central disbursements procedures. Particularly, the move in 2003 towards joint funding of the LGDP by several donors, covering support to a genuine nation-wide system for funding of LG capital investments and CB,[33] has marked a turning point. Donors, who could not finance this support through the overall programme, e.g. DFID's Decentralisation Support Programme (DSP) and USAID Support to Decentralisation in Uganda (SDU-II), aligned their support closely with the GOU strategic initiatives, such as the LGDP and the implementation of the FDS – see below.

[32] E.g. some of the districts are strongly support by the USAID funded SDU programme to roll out the FDS budgeting framework, whereas others, like Kibale are not yet covered (June 2005).
[33] The World Bank, Danida, Netherlands, Austria and Ireland. Other donor programmes, such as DFID´s DSP and USAID´s SDU, are designed to complement this initiative.

B. Analysis and Main Findings

B1. The Relevance of Partnership GBS to Decentralisation

26. As the following sections will show, the GBS design, combined with the SWAps and the PAF, allowed a significant and fast increase in the funds channelled through the LGs' budgets, supported by TA within key areas of LG performance.

27. However, the GBS process was not sufficiently aligned with the overall decentralisation objectives, as outlined in the Constitution, 1995, and the LG Act, 1997. This was particularly so in terms of local accountability, ownership, citizen involvement, participation and voice – and instruments better to align the support with these objectives are still being pursued. The FDS, 2002, was a reasonable response to these issues, but the support for the implementation has hitherto been insufficient, and the internalisation of the objectives across the sectors has been weak. Other instruments to supplement the fiscal decentralisation policy are urgently required.

B2. Effects on the Harmonisation and Alignment of Aid

28. All respondents from CG and LG levels agreed that there has been a better alignment of donor support with government systems and procedures in the past 4–5 years, spearheaded by on-budget funding system from PAF and the LGDP, funded by the GBS. Some of the milestones have been:

- Increasing interaction between the GOU and the donors.
- Increasing interaction between the CG and LGs.
- Increasing harmonisation and coordination across the donors (2000–), particularly through the Decentralisation Donor Sub-Group (DDSG).[34]
- Increasing use of CG planning, budget and financial management guidelines and systems, and all encompassing planning and budgeting, with inclusion of donors' support (from 2000–).
- Joint funding of key GOU initiatives, particularly the LGDP development and capacity-building grants, providing LGs with more equitable sources for development, and incentives to improve on key areas of performance, such as planning and financial management (from 2002/03–).
- Shift away from project support – district support projects – towards various forms of GOU programme and budget support (from 2003). Most support to LG capital investments are now routed through the GOU system. Some donors have decided to remain with the CB support to the districts, but have aligned this support with the GOU objectives of enhanced LG capacity (e.g. Netherlands, Ireland and Denmark).
- Alignment of disbursement, reporting and accounting procedures.
- Joint support to the development of a LG/CB strategy, establishment of a CB unit in MOLG, including systems for certification of the training providers, joint elaboration of high quality common training materials, etc. (from 2003) – previously, the CB support was fragmented, overlapping and not well coordinated.
- Joint support to the design and implementation of the FDS (2002–). The FDS has been a window for joint initiatives since the strategy was adopted by the Cabinet of

[34] See Steffensen and Ssewankambo: "*Links between the Local Government Development Programme (LGDP) and other Donor Supported Programmes in the Field of Fiscal Decentralisation*", November 2001, for an overview of the challenges in cooperation.

Ministers in 2002. However, it should be noted that the Strategy was a response to some of the problems created by the highly earmarked PAF conditional grant system, and that the support to the roll-out of FDS has been insufficient and under-funded.

- Support to the Joint Annual Review of Decentralisation in 2004, with participation of all major stakeholders (2004–).
- Plans further to strengthen the dialogue and coordination within the decentralisation "sector" towards a kind of SWAp arrangement.[35]

29. There is no doubt that the harmonisation of the donor-donor support has improved, through the DDSG. Most respondents are of the opinion that the GBS has had a *moderately positive* impact on this development, particularly indirectly through the PAF funding window and the LGDP programme – and that the coordination would have been weaker without the trends towards GBS.

30. The policy dialogue under the GBS framework, the PRSC process (since 2000/01), has helped link the LG TA and CB with government processes and facilitated the alignment. As for the CG level, the PRSC Matrix/actions put some additional pressure on various stakeholders to maintain the momentum of reform, e.g. concerning the FDS reform and the LG financial management issues. However, there is an agreement among all stakeholders that this impact has been much smaller for the decentralisation issues, partly because these have been inadequately covered in the PEAP, PRSC and the SWAp dialogue, partly because some of the main parties, e.g. ULAA and LGFC, has not been sufficiently involved. The rather weak linkages between the decentralisation stakeholders (MOLG, ULAA, LGFC, etc. and the sector ministries) and the absence of a decentralisation SWAp and Sector Working Group (SWG) for discussions and dialogue have also played a role.

31. Hence, there are areas where the coordination has been less successful, particularly:

- Lack of a common overall strategy on decentralisation (although this gap is now being addressed with the development of the Decentralisation Policy Strategic Framework) to guide especially the links between the decentralisation reform process and the sectors/SWAps activities and the overall policy issues.
- The coordination between the MOLG/decentralisation donors and the Sectors/SWAps has been weak. MOLG has not been in a position to coordinate the sectors, and there is a limited understanding and appreciation in the some of the sectors of the decentralisation reform process and the underlying objectives.
- Furthermore, there has insufficient "upper" coordination of these issues from the top political level.
- The GOU stakeholders and the donors were of the opinion that decentralisation and general public sector reforms are not well linked.[36]
- Although two coordinating bodies were formed in 2002/2003 – the LG Budget Committee and the LG Releases and Operations Committee and have been instrumental in dealing with the coordination of LG budgeting and accountability issues – the coordination between the government stakeholders, Ministry of Finance, Planning and Economic Development (MFPED), MOLG, LGFC and the sector

[35] A public tender has been issued for technical assistance to the Ministry of Local Government in support of elaboration of a decentralisation strategy, budgeting for implementation of the strategy and a concept note for a support programme to implement the decentralisation strategic framework (August 1, 2005).
[36] This has confirmed the study by Steffensen, Tidemand and Ssewankambo, 2004, op. cit.

ministries, are still far from optimal – an example of this is the recent issuing of new Decentralised Medium Budget Framework Papers by Ministry of Education and Sports (MOES) in clear contradiction and without coordination with the FDS budget guidelines.

- Weak linkages between the various IT monitoring systems – the MOLG. (LOGFIAS/LOGFIS), LGFC's databank, MFPED, Integrated Financial Management System (IFMS) and various sector monitoring systems.
- The decentralisation stakeholders' impact on the overall issues in public administration reform, e.g. the taxation issues, the structure of LGs, etc. seems rather weak.
- The lack of a SWAp for decentralisation as a common framework to ensure continued dialogue, strategising, and coordination.
- The continued existence of some parallel district support projects (although the number has decreased) with separate systems for accounting, audit and reporting.

32. Further details are provided on these issues under sections B4 and B5. The lack of instruments to tackle these challenges has had an impact on the LG Public Expenditure framework, and the planning, budgeting and financial management performance – see below.

B3. GBS and Effects on Local Government Expenditures

Size of the Grants

33. GBS, SWAps and the PAF have worked together in a system, which has ensured a significant *increase* in the LG Financial support to a tune that would not have been possible with other transfer modalities[37] – see Section A2. Such an increase from 1998–2004 (nearly four times the funds) is unusual, even in countries that have decentralised fast; and the share of funds, which have been routed through the Government systems towards the LGs, has increased with the mainstreaming of a number of district support programmes. Furthermore, the LG budgets are more *comprehensively* reflecting the total inflow of resources to the local areas than was the case in the beginning of the evaluation period.

34. The SWAps and the PAF conditionality gave donors additional confidence to provide GBS and route the funds through the LG system, and there has been a mutually strengthening relationship between this mechanism and the GBS funding available for local service delivery. Figure 6B.1 and Table 6B.1 provide an overview of the development in the funds, and funds spent on services delivery versus general administration.

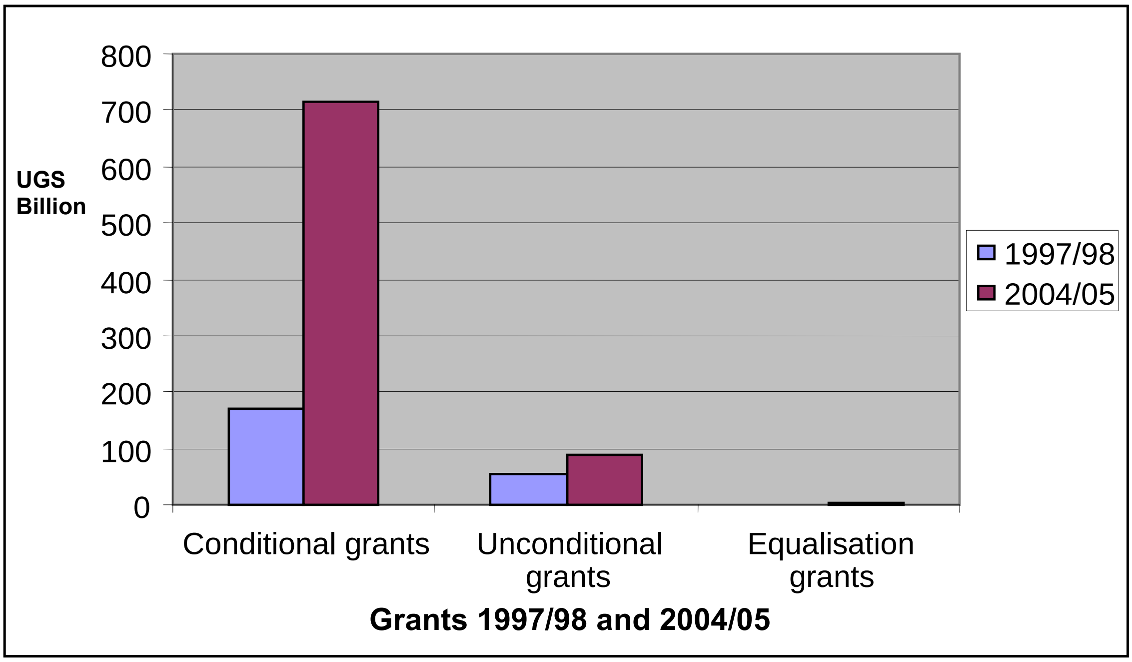
Conditionality

35. The increase in funds, combined with the "*earmarking*" to specific sectors and sub-sectors, have led to a significant increase in funds available for basic service delivery in areas such as education, health, roads and water/sanitation – see Table 6B.1.

36. The majority of the increase in LG funding was of as highly **conditional nature,** as reflected in Figure 6B.1 below.

[37] Based on interviews and review of various reports, e.g. Williamson and Sudharshan, 2003 op. cit,. and Kasumba and Land, 2003 op. cit.

Figure 6B.1: Composition of the Grants



The intergovernmental fiscal transfers (grants) to LGs increased from UGS 225 billion in 1997/98 to UGS 805 billion in 2004/05, see Attachment 1 at the end of this Annex.

Discretionary Power of the LGs

37. The Unconditional Grant was outside the PAF, and it has gradually been reduced as a share of the total LG revenues. As own-revenue sources have decreased as well from about 35% of the total LG revenue sources in 1997/98 to about 10% in 2003/04, the discretionary power to make local priorities (flexibility), also considering the many conditional grants, have been reduced. It has been questioned by many stakeholders whether the process is characterised more by "deconcentration" than the intended "decentralisation by devolution". This has been counterbalanced to a certain extent by the introduction of the LGDP, which is a discretionary non-sectoral development grant, and which constitutes about 7-8% of the total grants in Financial Year (FY) 2004/05. Hence, it is estimated that the total amount available for cross-sectoral allocation to reflect local needs is about the same level as in 1998/99, but much higher than 1994, where the decentralisation process has hardly started. It should also be noted that, although the grants are earmarked for certain sectors and sub-sectors, there are important local decisions to be made on the specific utilisation, including mix of input, allocation of the services and facilities.

Utilisation

38. The share of funds used on general administration has decreased and service delivery increased (see Figure 6B.1 and Table 6B.1), and there is anecdotal evidence from the health sector (see main report) and from the field, particularly from Kibale District, that the transaction costs of other aid modalities in terms of administration and TA support has been significant higher than the support funded by GBS.

39. The sector conditional grants were targeted particularly towards PEAP areas such as primary education, health, water and sanitation and rural roads, and have to a large extent been

utilised within the intended sector and sub-sector areas.[38] In addition, the LGDP grants, which are LG discretionary non-sectoral development grants have been utilised in areas reflecting the PEAP objectives, see Section B5.

Table 6B.1: Composition of District Expenditures (percentage)

Districts	1997/98	1998/99	1999/00	2000/01	2001/02	B 2002/03
Administration and other areas, including council	36	27	25	23	23	24
Agriculture	1	1	2	3	3	4
Roads + Water	8	19	13	13	12	13
Education	46	43	50	49	47	43
Health	10	9	11	12	15	16
Total	100	100	100	100	100	100

Source: Steffensen, Tidemand and Ssewankambo, 2004, Annex 4.2, drawn from figures from the Macroeconomic Dept., MFPED. Administration is broadly defined and covers management support services, council operations, finance and planning and other areas not covered by the four key sectors.

Predictability and Reliability

40. The predictability and reliability of the grants have improved over the period, particularly from 2000/01 – 2003/04, but there are still instances of cut-backs in the grants during the budget year, e.g. in FY 2004/05, and still some delays – see Box 6B.1. However, as documented in the Main Uganda Country Report, the GBS has not contributed to this increased predictability. An example of this is the LGDP allocation to LGs, where GOU in several cases has stepped in and filled in the gap (or most of the gap) prior to the releases of transfers from the donor agencies.[39]

41. Second, some of the grants have been delayed during the year, due to varies reasons, and fluctuated (e.g. the LGDP grant) due to changes in exchange rates. This has caused some planning and implementation challenges in various areas, particularly in the areas where the seasonal planning is important, such as agriculture and impacted negatively on the accountability. Finally, there are signs that the predictability will be reduced in 2005/06, e.g. the reduction in the LGDP grants will be about 16% from the Indicative Planning Figures (IPFs).

42. Findings from the field revealed that the largest proportion of the delays in funding of service delivery institutions were due to lack of administrative capacity and banking procedures within the districts, but that the CG procedures also needs improvement. A recent study documented that the average delays in funding of LG non-salary recurrent and development activities were 32 days and 27 days respectively, but with great variation and special problems in the beginning and closure of a finance year, leading to inefficiency. The main reasons are set out in Box 6B.1.

[38] ODI, op cit. 2004. Particularly the improved LG financial management, the increase in the TA and control and the expenditure tracking studies have facilitated this.

[39] Some of the districts have received less than expected LGDP grants in FY2004/05, as funding of a new initiative Early Childhood and Nutrition Programme, was funded by the local development grant (reduced the LDG by 25 % for these districts).

Equitable Distribution of Funds

43. The on-budget grant systems, particularly from 2002/03, have ensured a more equitable allocation of resources than the district supported programmes, which tended to focus on a few districts.[40] A study in 2001 found that some districts received more than USD 8 per capita in support from various donors, and other (equally needed) districts where nearly left out.[41] It is expected that the coming grant allocation formulas will further improve the allocation towards additional support to the weakest districts.

44. On the more problematic side, three factors – impact on own source revenues, transaction costs of grants and lack of empowerment/flexibility - have been mentioned in various studies and confirmed by the field trips.

Impact on Own-Source Revenues[42]

45. First, the negative impact of this significant inflow of funds on the incentives for the LGs to address own-source revenue sources. This has been documented in many studies, by the field trip, and by interviews at the central level with donors and government agencies, and it has led to undermined accountability, ownership and long-term sustainability.[43] This issue will be treated in further detail in the final section on sustainability.

[40] This is also the findings in a recent study by Odero, Kenneth K, : PRSP in Decentralized Contexts: Comparative Lessons on Local Planning and Fiscal Dimensions, Uganda Study, April 2004.

[41] Steffensen, Land and Ssewankambo, Programme Review of the LGDP, Volume 1, 2001.

[42] The importance of a certain share of LG own source revenues with discretion to adjust at the margin, it well recognized and summarised in the World Development Report, 2004, the World Bank p. 189 as: *"To increase responsiveness to local citizens, subnational governments need a local tax instrument and freedom to set rates".*

[43] See the Fiscal Decentralisation Study, 2001, op. cit., Kasumba and Land, 2003, op. cit, and Steffensen, Tidemand and Ssewankambo, 2004, op. cit.

Box 6B.1: Delays and inefficiency in transfers

Multiple checks take place in both LMs and LGs as part of internal control, in as far as the payment of funds is concerned. This often leads to duplication of effort and prolonging of the process of utilizing the funds. In some spending agencies, the whole process of payment takes up to one month. For LGs, usually three release letters are issued every month to cover the three categories of releases, i.e. non wage recurrent (PAF), development and automatic releases, instead of issuing only one release letter to cover all releases at a go. The reason for this is that different data bases are held by MFPED for each of the three release types. As a result, a number of cash release forms have to be issued again by the commissioner in the treasury officer of accounts to cover each of the different releases. LGs, therefore, have to collect several documents concerning releases every month at different times – which is time and resource consuming. At the **beginning of the year,** the MFPED makes releases late to the spending agencies for several reasons.

The spending agencies, especially LGs, take too long to **open new bank accounts** and advise the treasury department accordingly. Without this information, MFPED cannot release funds to them. It is apparent that spending agencies do not plan early enough for the closure of the year. The need to open new accounts arose because of the backlog of reconciliations. With the introduction of the IFMS, the LGs will not be required to open up bank accounts every year.

The PAF General Guidelines, as regards the timing of releases, are not entirely followed by MFPED. The flow of releases to LGs is somehow irregular, particularly for development releases. This makes it a little difficult for LG officers to plan for utilization of the funds. This is mainly caused by the failure of LGs to follow the conditionality and guidelines for the utilization of these grants, and especially the timely submission of quarterly reports and workplans to LMs. Because of this, the sector ministries do not recommend the errant LGs for further releases. Also, the release timetable may not be followed for macroeconomic reasons, which might justify withholding the release to control liquidity in the economy, with the desire to control economic factors such as inflation and interest rates.

The majority of LGs submit the required reports late to the sector ministries, and as a result the sector ministries cannot recommend them to the MFPED for further releases in time. This is a major cause of delay.

Wage releases are made consistently by the MFPED every month, and wages are paid in time overall. Although some inconsistencies in non-wage recurrent and development releases do occur, the pattern of making these releases is the same throughout the year. There is no significant change in the pattern at the end of the year.

Seasonal fluctuations in revenue collections by Uganda Revenue Authority (URA) may lead to irregular and late releases, because MFPED operates on a cash flow basis.

Other causes of delays include exhaustion of funds by a ministry on a programme and seeking internal re-allocations from MFPED, local banks taking long to credit employees with salaries, absence of cheque signatories, tenders awarded too late, late completion of work by contractors, accumulation of funds on bank accounts, and communication lapses between the CG and LGs.

It has been agreed that, for LGs, they should submit accountability reports and cash requests in the last week of each quarter to allow sector ministries to recommend them for release of funds for the next quarter by the 5th of the first month of the quarter – and then the MFPED should make releases by 10th of the month. LGs do not fulfil this condition, and many sector ministries do not recommend the LGs in time (due to late submission of reports by LGs and general delays by the sector ministries). A good percentage of the delays in funds reaching the final beneficiaries are attributable to slow procedures at the ministries and LGs themselves. Delays take place after funds have been transferred to the ministry accounts, because the Accountant General refuses to allow them print cheques due to failure to fulfil conditions and especially the commitment control system and reporting requirements. General slackness by ministry staff to process payment is another reason. Delays occur at LGs once funds have reached there because transfers to spending units/ Lower Levels of Government (LLGs) are not always made promptly, and this leads to accumulation of large balances on bank accounts.

At the LG level, there is abrupt spending and transfer of funds downwards near the end of the year. This is solely done to exhaust bank accounts at the end of the year.

Source: Release Tracking Study, MFPED, 2004, Kebu Consultants and EPRC.

Transaction Costs

46. Second, the development of a system with more than 30 conditional grants, with numerous planning, budgeting, accounting and reporting procedures, limits the autonomy and increases the transaction costs. The decrease in LG autonomy was an increasing concern for GOU and the main donors, and a study (Fiscal Decentralisation - The Way Forward, 2001) was commissioned, and a strategy developed by the MFPED, LGFC, MOLG and key ministries, the FDS. It had the aim of reducing the number of conditional grants, increasing the flexibility and reducing the transaction cost by streamlining and improving the reporting systems and other modalities. According to the FDS, LGs are allowed 10% flexibility in the non-development, non-salary components of the PAF sector grants. The FDS was a response to the PAF challenges and increasing concerns that the PAF conditional grants were not sufficiently aligned with the decentralisation objectives of devolution. It is appreciated by most stakeholders, but has been rather slow in implementation due to some resistance from sector ministries, and lack of technical and financial support in the implementation. It was noticed that, for instance, in Mubende, where SDU has supported the district in the FDS implementation, the system was up and running; whereas in Kibale District, there has only been an overall introduction to the system as part of the yearly Budget Framework Conference, and the system was not internalised and/or applied. However, compared to the district support programme modalities, there is a general agreement among the respondents that the GBS aid modality has lower transaction costs.[44]

Empowerment and Flexibility

47. Overall the empowerment of LGs in exercising the expenditure priorities has to be weighted. Box 6B.2 below provides an overview of the pros and cons.

48. Most stakeholders were of the opinion that the total set of factors has moved in favour of modest increasing empowerment, until the recent policy initiatives in 2004/05 (outside of the study period – see sections B8 and C1).

49. To conclude, the GBS has indirectly influenced the level of LG expenditures in a pro-poor manner and the efficiency in LG expenditures, although the tight earmarking has reduced this efficiency (through restrictions on local priorities) to a certain extent. However, the experience has also been that the increase in transfers from CG, funded partly by the GBS, has created unintended impact on the incentives to mobilise own-source revenues, particularly if this is not addressed in the future grant design and tax reform programme.[45]

[44] This was, e.g. raised during the Workshop on July 20, 2005.

[45] LGDP II is the only grant so far introducing incentives for LGs to improve own-tax effort; other grants, like the PMA non-sectoral grant, have introduced co-funding requirements, but this has not been sufficient to maintain the own source revenues at the level prior to the increase in transfers.

Box 6B.2: Factors leading to empowerment of LGs in expenditure priorities in Uganda

For	Against
Increase in the total funding available for service delivery and poverty alleviation	Increasing earmarking of grants, with less room for local priorities compared to other types of grants such as unconditional grants
Improved guidelines on planning and budgeting and use of GOU systems	Decrease in the LG own-source revenues, both nominal and as share of total revenues, from 35% to less than 10% since the start of the GBS. LG revenue mobilisation has been undermined by increase in grants poor incentives to mobilise, and political signals from various levels
LGDP funds provided to most LGs from 2000, and to all LGs from 2003, provide significant funds for non-sectoral discretionary allocation for investments in small scale infrastructure, based on a performance incentive system where the best performance receive rewards - and the opposite	PAF conditional grants do not transfer funds to the lower levels of government but by-pass these tiers of government, contrary to the intensions in the LG Act
More funds are spent on development as the PAF funds and the LGDP have increased (and earmarked) funds for development	A Fiscal room has been partly provided to make the abolition of the most important tax, the G-Tax (cf. Section C), possible. This will further undermine the autonomy and the sustainability of the system of LG finance
Some grants, like the LGDP and the Programme for the Modernisation of Agriculture (PMA) non-sectoral grants, have introduced an element of co-funding, which has enhanced the ownership of the investments and the involvement of the citizens in the priorities – and improved accountability	Limited flexibility and strict operational conditionalities in the grant system reduce government's ability to cooperate with non-state actors and ensure downward accountability[46] (see Section B4)

B4. Contribution of GBS on LG Planning, Budgeting and Financial Management Procedures

50. To what extent has PGBS had an impact on the LG ownership, planning, budgeting, financial management and accountability procedures at the LG levels?

Planning, Budgeting and Accountability

51. Various studies have previously identified planning and budgeting as some of the weaker areas of LG performance, although there has been an improvement in the most recent years.[47] Financial management, in the limited sense of accounting and bookkeeping, has improved significantly over the past 10 years[48]. However, the accountability has been focusing largely "upwards" towards the CG ministries, rather than "downwards" towards the constituencies. These findings have been confirmed during the field visits, although the picture is complex.

52. In the area of planning *and budgeting*, a number of initiative have been put in place to improve the procedures, such as: i) issuing of planning and budgeting guidelines from the CG,

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[46] Land, 2003 op. cit. p. 24.
[47] ODI: *"Uganda Local Government Integrated Fiduciary Risks Assessment",* 2004, and Ministry of Local Government: "*Annual Assessment of Minimum Conditions and Performance Measures for Local Governments, 2004, Final Synthesis Report",* 2005.
[48] See Kragh, Steffensen, Williamson and Baryabanoha: "*Design of the Financial Management, Accountability and Reporting Systems under Fiscal Decentralization Strategy and Issues on Local Government Financial Management for Public Expenditure Review (PER*, 2003.

ii) development in the LGDP grant scheme of incentives to improve planning and budgeting and promote citizen participation and poverty targeting – a grant which has been transferred also to the lower levels of LGs, and which has promoted ownership and local participation[49], iii) support to establishment of planning units and technical planning committees in all districts, iv) earlier announcement of IPFs from the CG, typically in October/November prior to the FY and support to the development of the Budget Framework Paper and national and regional Budget Conferences arranged by MFEPD, v) TA/CB support rendered under various programmes, especially the LGDP capacity-building grant with development of joint comprehensive training materials in planning, budgeting and financial management and, finally, vi) establishment of two inter and intra-governmental committees – the LG Budget Committee (LGBC) and the LG Releases and Operations Committee (LGROC), to oversee and coordinate these issues.

53. The National framework for CB (from 2003) has also improved coordination, but still there is inadequate support, particularly from the sectors. GBS has enabled the CG to provide early IPFs to the LGs and this has improved the possibilities for advancing the planning and involving various stakeholders at the local levels in due time. It has promoted a more holistic and comprehensive planning process.

54. However, a number of factors have *constrained* the process and reduced the impact. First, the IPFs are often changed several times prior and during the FY, although this has improved over time. Second, the linkages between the planning guidelines issued by the MOLG (planning and development planning guidelines), the Local Government Budget Framework Paper materials, and the linkage to the sector PAF guidelines, could have been stronger, and have often sent conflicting signals to the LGs. Third, although the PRSC matrixes have included some benchmarks on a participatory local planning framework, a clear strategy on how to ensure proper planning and budgeting and involvement of the citizens in this process has been missing. Fourth, and most importantly, the PAF grant system has had a strong tendency to focus on u*pward accountability* and strong linkage between the local administration technocrats and the sector ministries. Local politicians have been less involved in this centralised budget and planning process, contrary to the overall decentralisation objectives.

55. Overall, the strict rules and the guidance within the conditional grant system (partly funded by GBS) and strong earmarking of funds have to a certain extent compromised the local possibilities for priority making and involvement of the grassroots. However, most technocrats at the LG level supported this approach and mentioned that: "*it has ensured that the politicians are focused on service delivery and poverty alleviation in a situation with lack of strong capacity to make cross-sector priorities",* but other stakeholders expressed concerns about the lack of flexibility and downward accountability of present systems, and the negative impact on local revenue raising - the weak links to the overall decentralisation and governance objectives as set out in the Constitution and LG legislation.

56. The FDS was supposed to address this problem as it was recognised by many stakeholders that the pendulum had moved too much towards a *technocratic line ministry* (deconcentrated) approach contrary to the original decentralisation objectives of empowerment, local ownership and participation. The FDS has made some improvement, particularly with the option for flexibility in the local budget allocation across the sectors and improved reporting formats, but the TA support and internalisation of this process have been inadequate in scope and coverage – but appreciated in some of the districts, which have received significant TA support in this field, e.g. in Mubende District.[50]

[49] However, this grant only accounts for about 7% of the total transfers to LGs.
[50] Mubende has received significant support to roll out of the FDS by SDU.

57. The gradual, modest and very cautious approach, and the expansion of the flexibility within the FDS framework, where the two objectives – adherence to national service delivery targets and local flexibility – are balanced, was welcomed by most respondents at the LG and CG levels. However, it is still not well conceived in some of the sector ministries.

58. To conclude, the on-budget grant system, supported by the GBS, has facilitated an improvement in the basic accountability for funds and targeting of expenditures towards service delivery according to the PEAP. However, the strong earmarking of funds (the manner in which the system has been implemented) has reduced a holistic and locally determined flexible local planning and budgeting, and to certain extent curtailed the ownership and downward accountability. The fear of the sector ministries and some donors has been lack of LG capacity to handle more discretionary power – a capacity which, according to many respondents, will take time to elaborate – along with increased TA and CB of the administrative and political levels.

59. The process towards realising the objectives of the FDS objectives of encouraging more autonomy in a phased manner, with improved budgeting, accounting and reporting processes and formats, has been slow. Among the main reasons for this are: lack of support from the sector ministries, inadequate coordination between MOLG and MFPED, and lack of strong and coordinated support from the donors in decentralisation to the FDS implementation and lack of targeted treatment of these important issues in the PRSC policy matrixes and in the SWAp dialogue (see Section B5 below).

60. The strong *sector* focus in the SWAps, the PAF conditional grants and the PRSC process, have placed the cross-cutting local (participatory) planning and budgeting in a somehow inferior position and strengthened a development with a mix of de-concentration and decentralisation features.

Financial Management

61. In some areas of financial management, such as book-keeping, recording and accounting, the situation has improved significantly since the start of the evaluation period, particularly after the start of the GBS.[51] Although the PAF grants have put a great pressure, particularly in the first years, on the LG accounting and reporting functions, the most recent improvements and customising of the reporting formats, have eased the LG accounting functions. The technocrats at the LG level feel that these systems have instilled a professional approach to accountability and improved their attention on the key functions.

62. Significant TA has been rendered through the related GBS programmes, particularly through the EFMP II and LGDP I and II programmes, with training of accountants, and the focus has been on improved staffing of the core LG financial management functions. Second, the PAF grant to support monitoring and supervision has supported a number of accountability functions at the LG level. Third, the LGDP I and II have provided strong incentives to improve the basic financial management systems with a performance sanction and reward system – as well as the accountability requirements in the PAF-funded grants. Grants are simply not transferred in cases of lack of accountability. Fourth, the donor support in this field has gradually being aligned with government systems, and joint support programmes using GOU procedures have

[51] As mentioned by Odero, there was virtually no existence of planning, budgeting and financial management and audit at the local level prior to the PEM reforms, linked to the GBS/PAF, op cit. p. 3, 2004.

been elaborated.[52] The previous fragmented district support programmes, although with their benefits, had not led to a significant improvement in the core financial management functions in many of these LGs.[53].

63. The flip side of the coin has been a tendency in some places to focus on "paper for money accountability" and less attentions has been paid to cross-cutting issues and downward accountability. Second, the PFM Reform has only recently (2004) given the LG PFM a significant role, and attempts to elaborate a strategic framework under the Public Expenditure Management Committee are, however, still without sufficient linkages to the overall decentralisation reform process. Third, the PRSC 1-4 benchmarks have focused attention on a few areas, like accounting functions and audit reports, leaving other equally important areas, like revenue administration and mobilisation, LG revenue reforms, and downward accountability, untouched. As was the case for planning and budgeting, the FDS TA support has been emerging, but still does not capture all districts. Notwithstanding the above, a move has been observed from 2002/03 where a number of donors have increasingly aligned their technical support in financial management with the GOU's objectives of improving basic performance, and have provided TA to districts to comply with the GOU's minimum conditions for access to LGDP development grants (Danida, DCI, RNE and USAID/SDU).

Ownership

64. The impact on ownership is complex and it should be treated with caution. The overall concern by many respondents is that the large transfer of funds through GOU budgets, funded by GBS, has led to a *lack of local ownership and sustainability* in the process, particularly by undermining LG incentives to focus on own-source revenues, citizen apathy and lack of contribution. This will be worsened by the recent abolition of the G-tax, which in terms of revenues was the most important revenue type for LGs. The strong earmarking of funds has added to this problem. However, there are also incentives in the other direction, which deserve mentioning, particularly the LGDP, which provides stronger incentives for LG participatory planning, budgeting and revenue mobilisation – and the FDS initiative, which focuses on more flexibility and local priorities.

65. Overall, it is argued that the GBS support through the PAF/LGDP has had a *moderate indirect impact* on the positive development in financial management. However, it is the view of all respondents, that there has been insufficient focus on the improvement of the downward accountability, information exchange, involvement of citizens in the control of LG procedures (democratic accountability). Furthermore, the system has had an indirect negative impact on serious sustainability issues, particularly on the own-LG revenue mobilisation efforts and weak attention to governance reforms. There has been a biased focus on formal technical benchmarks, such as number of accounts, laws and regulations in place (e.g. procurement) and staff positions in place, and less on the overall critical reform issues, pertinent for the longer term realisation of the decentralisation objectives – see below.

[52] Examples of this are the DFID, Decentralisation Support Programme, the USAID-funded Support to Decentralisation in Uganda, and Danida's programmes on support to the key institutions, LGFC, ULAA and MOLG.

[53] See e.g. "Annual Review Mission, 2005, Rakai – District Development Programme – Funded by Danida, Draft Report 2005, by Land, Gerhard and Baryabanoha Wilson, and the fact that many of the districts supported heavily by district support programmes had difficulties in complying with the minimum financial management conditions in the LGDP-II. This is confirmed by interviews with stakeholders and the CG and LG levels.

B5. GBS Contribution to Decentralisation Policy Process and Policies

66. The GBS contribution to the decentralisation policy process can be reviewed through: i) the PRSC "lenses", ii) the dialogue surrounding the PAF grants and iii) other areas of dialogue related to donor support.

67. The decentralisation policy and reforms (Constitution, 1995, LG Act 1997 and LGFAR 1998, the structure, administration, division of tasks and responsibilities) predate the move towards GBS, and the GBS has not had a *direct* impact on the overall policy of decentralisation.

PRSC - Decentralisation

68. Originally, the PEAP and PRSC did not cover many issues within decentralisation, and decentralisation has not been a major subject in the PRSC policy matrix and in the dialogue on GBS, although this is emerging in the coming PRSCs. Except for PRSC 4, which requires that a proposal for new tender board regulations, pertaining to the appointment and removal of tender board members, should be submitted to the Cabinet, prior actions have not been related to key decentralisation issues (e.g. democratic issues, LG administration expenditures, structures, governance issues such as accountability and payment of councillors, LG financial sustainability such as issues on taxation, etc.).

69. The PRSC has strong references to the sector targets, which are mainly being implemented by the LGs through the grant funding schemes, but these are not linked to the overall cross-cutting decentralisation issues, such as structures, funding system, political accountability, etc.

70. Many decentralisation stakeholders feel that they have been insufficiently involved in the PRSC dialogue and that this may have had an impact on the lack of concern about the recent initiatives within the area. However, the donors and the LGs are of the opinion that the GBS has led to increased interactions and coordination across the donors.

71. It is found that the lack of linkage between the SWAps and the decentralisation policy, and the fact that there has been an absence of a SWAp for decentralisation,[54] have had an impact on these issues. However, it is understood that that the future PRSCs may cover some of these issues, particularly related to a strategy for decentralisation, restructuring (overall and internal), LG revenues. Prior actions may include "*Satisfactory progress on core undertakings identified and agreed by the Joint Annual Review of Decentralization (JARD) 2004 action plan, including: Development of a comprehensive policy framework for decentralization; review of MOLG mandate and structure; comprehensive legal framework for supervision and inspection of local governments (including contracts committees); and development of a conducive local taxation regime)".* The latter is already identified as one of the key milestones in PEAP 3.

PAF

72. The GBS has had an important indirect impact on the policy dialogue within one major area, the PAF grant modalities. PAF conditional grant guidelines were issued from 2000 by MFPED, in cooperation with the line ministries, after dialogue with PAF donors requesting improved accountability. At the same time (in 2000) it was increasingly acknowledged that the expansion of the number of conditional grants and related planning, budgeting, accounting, banking and reporting systems, led to reduced autonomy and flexibility, contrary to the decentralisation objectives. It also caused increased transaction costs in the LG compliance with all these requirements.[55] The reform of this – the FDS – was created to respond to the SWAps, sector

[54] It is acknowledged that " Decentralisation" is not a typical "sector".
[55] See Fiscal Decentralisation – the Way Forward, January 2001, op cit.

and donor requirements, but it was also addressed in the framework of the GBS as the Policy Matrix for PRSC 1 and 2 included benchmarks on development of a better grant policy and streamlining and harmonisation of the transfers to LGs. In the PRSC, to address these problems, the following action was included: "*MFPED completes a study on inter-governmental fiscal transfers*". A joint donor support modality, facilitating support to development of a new strategy in this area (the FDS), was introduced, and the new Strategy was adopted by the Cabinet of Ministers in 2002 for gradual piloting and implementation. The FDS benchmarks, related to implementation and roll out, have been included in subsequent PRSC matrixes.

73. The fact that FDS is included in the PRSC dialogue has had a positive, although moderate, impact on the implementation progress. As mentioned previously, the strategy is still not conceptualised in some of the main sectors, and decentralisation and FDS have not taken "root" in the major sectors, which tend to focus more on the SWAp targets. Furthermore, the FDS implementation has suffered from lack of sufficient TA support. The latter seems now to be addressed by additional support from the EC in addition to the supported currently rendered by LGFC and USAID/SDU-II.[56]

Other Areas

74. In addition to the FDS, the PRSC focus within decentralisation has been on technical matters such as the number of accountants, status of final accounts, audit, etc. – without linking this to a detailed strategy on improved overall performance. These reforms would probably have taken place without reference to the PRSC process, and have not had a major place in the dialogue, except the recent wish to change the composition and appointment of the LG tender boards (PRSC 4).

75. Outside of the PRSC forum for dialogue, there is a clear indication that the donor-donor dialogue, particularly through the Decentralisation Donor Sub-Group, has been strengthened during the period, particularly since 2002. The CG-LG dialogue has also improved through the PAF/FDS-supported LGBC/LGROCs and the LGFC. The respondents find that the dialogue between the donors and the key CG stakeholders at the technical level has improved.

76. However, at the overall policy level, the interactions have been limited and with limited impact. According to most respondents and various reports, issues like the LG structures (size, numbers of layers and numbers of LGs), LG sustainability (revenues, co-funding arrangements etc.), and downward accountability/good governance are not sufficient covered in the dialogue. Box 6B.3 provides an overview of the impact of GBS on the decentralisation policy process.

[56] USAID SDU is currently supporting the roll-out of the FDS in 26 districts.

Box 6B.3: GBS Impact on Decentralisation Policy

Areas	Impact	Comments/examples
Impact on technical issues	Moderate impact The reforms would probably have happened anyway, but at a much slower pace	• FDS: Positive impact on the FDS, but this was a response to problems created by the PAF system itself • Accounting functions: the PRSC process has flagged the issues and TA support related to the GBS has facilitated improvements • Auditing of LGs: PRSC process flagged the issues of lack of coverage of auditing • Staffing: PRSC has created awareness of the problems with a number of accountants • Procurement: the PRSC process has pushed for a process of change • Coordinating forums: GBS supported, indirectly, the establishment of inter (and intra) governmental institutions for coordination of budgeting and grant modalities • LGDP (2000-): The non-sectoral development grant, related to performance incentive system and capacity building, has had a significant positive role for the coordination (both harmonisation and alignment of donor support), and for mainstreaming of donor support, development of joint procedures, systems and TA aligned with GOU procedures.
Policy level impact	Weak/no impact Emerging potential impact from 2004-	• Main decentralisation policy areas not included in the PRSC 1-4. This seems to change in the future dialogue • Major gaps in the dialogue at the highest policy level. There has been no forum for high level cross-cutting sector dialogue on decentralisation issues • The lack of a SWAp with a strategy and implementation plan has been a problem • The LGDP-supported Joint Annual Review of Decentralisation (JARD), first time 2004, may potentially have an impact on the future policy dialogue and changes if developed into a SWAp type of arrangement with strategy, costing plans, joint reviews, etc. The key donors and the Government have agreed to pursue the development of a SWAp mode of coordination, including a strategy, plan, costing implementation plan, activities, etc. The links to the Public Sector Working Group is being discussed, i.e. should decentralisation be a sub-group or a separate SWA for decentralisation.
Overall evaluation	Some impact on the technical level, but weak impact on the main policies	• Key issues not tackled sufficiently in the dialogue • Weak links between the SWAps/sector, public administration reform issues and the decentralisation objectives • Issues are brought too late into the dialogue.

77. The donors and the GOU representatives involved in decentralisation have experienced that the lack of a SWAp, a decentralisation strategy and high-level dialogue on the main issues such as sustainability (LG revenues), LG structures and accountability, has had negative consequences for the overall reform process. The lessons have led to a strong wish to establish a better future framework, including a coordinated policy dialogue and coordination of strategic

activities, as soon as possible – although it might be too late, as major steps against the original decentralisation objectives have already been taken.

78. The initiative emerged with the JARD 2004 process where stakeholders outlined activities for the future reform process. To boost these initiatives, it is expected that a genuine SWAp for decentralisation is to be established, and that the decentralisation policy reform issues will have a larger role in the future PRSC process.

B6. Impact of GBS on the Delivery of Local Services

79. The impact of GBS on the delivery of local services can to be looked at from various perspectives: i) efficiency, ii) effectiveness (detailed in Section B7 below), iii) the extent to which enhanced institutional capacity and improvements in the capacity of institutions in the longer term to provide services has been established in a sustainable manner and the impact of the capacity building on these possibilities.

80. Generally, there is limited data on the various forms of support and on the efficiency and effectiveness in LG service delivery.

Efficiency reflected in the share of funds used in Service Delivery

81. On the one hand, the GBS has led to a more pro-poor service delivery, through a massive up-scaling of the resources available for service delivery and more resources flowing to service delivery agencies – a clear *flow of funds effect*.

82. It was clear from the field trips and from various reports (see the Main Uganda Country Report) that there has been a significant expansion of service delivery since the start of the GBS: enrolment in primary education has increased (number of classrooms, books and teachers), water coverage has improved, agriculture extension service provision increased, new health units established in each district and sub-county, opening up of feeder roads, etc.

83. Furthermore, compared to the previous system, prior to GBS, a smaller share of the LG funds are now spent on *general administration*, and a larger proportion on service delivery – see Section B3. This tendency is also confirmed by data from the LGDP, which is a non-sectoral grant transferred to LGs since 2000 – see below. However B3 and Annex 4 also point to a more recent decline in non-wage operational funding, despite continued increases in levels of service delivery.

84. The respondents were of the view that the GBS, combined with the SWAps, the PAF and the MTEF arrangements, have *impacted positively on the amount of funds* (and proportion) spent on basic service delivery at the local levels on key PEAP areas. Other types of aid flows to LGs are perceived as being more transaction-cost heavy.

85. The LGDP non-sectoral grants illustrate that, if LGs are provided with grants linked to strong incentives to perform, they will utilise the funds within the PEAP areas (roads, education, health etc). Only less than 5% of the total investment costs were used on general administration (buildings and facilities) and 95% on the PEAP areas (health, education, roads, water/sanitation and agriculture). This may suggest that some of the tight conditions in the PAF conditional grants could be eased. Below is an overview of the use of the LGDP grants in FY 2003/04.

Table 6B.2: Break down of investments funded by the LGDP development grant
Summary of LGDP II investments (2003/2004)

Sector	No. of projects	Total cost UGS	Percentage of total cost	Average project cost UGS.
Roads and Drainage	564	6,342,607,970	36.6%	11,245,759
Education	499	4,240,066,484	24.5%	8,497,127
Health	177	2,663,521,546	15.4%	15,048,144
Water and Sanitation	472	2,155,000,419	12.5%	4,565,679
Production	370	1,600,392,718	9.2%	4,325,386
Administration	30	271,760,717	1.6%	9,058,691
Solid waste	15	35,819,191	0.2%	2,387,946
Total	2,127	17,309,169,045	100%	8,137,832

Source: Project Coordination Unit (PCU) Data Bank. LGDP-II provides a non-sectoral development grant funded by the GOU and a number of donors under PAF (on-budget)

Value for Money

86. Various evaluations of *district support programmes* have confirmed that the overhead costs are relatively high in terms of general administrative costs, higher costs of services provided, e.g. school buildings and health units due to the intensive TA/CB support – sometimes more than 50%. Various reviews[57] and interviews have suggested that the costs of the services provided by modalities other than GOU grants tend to be much higher, but that the quality may tend to be somehow better in some cases. However, the LGs prefer the flexibility to choose the service/quality mix, and the evaluation of this trade-off results in advantages for the GBS approach. Second, grant systems that allow for local priorities across the sectors tend to have the highest value for money, if they are linked to strong incentive systems to improve on performance and good supervision. The experiences is also that, if LGs are allowed to make their own priorities, the cost of the unit services tends be lower, e.g. if LGDP classroom costs are compared with the school facility grant unit costs. This is partly because the LGs will focus on quantity instead of quality, but also because local providers are utilised with lower costs.

87. Notwithstanding the above, the field visits documented a number of challenges, and interviews with various stakeholders suggest that there has been a tendency to focus on increase in quantity rather than quality. This is reflected in low completion rates in primary schools, low education standards, poor quality in schools construction, lack of drugs in many health centres, etc. However, it should be noted that the emphasis within sectors has recently turned to quality, but still with a limited attention to cross-cutting activities. Second, there is a strong focus on service provision and a weaker emphasis on income-generating activities. Third, there has been a lack of capacity at the LG level, but also a lack of backstopping support and inspection from the centre ("funds are just transferred") and a lack of incentives for staff and institutions to improve performance, e.g. with less than UGS 150,000 per month in salary to the teachers (as mentioned in Mubende – "*we have examples of hungry teachers teaching hungry children")*, lack of flexibility in the fund utilisation reflected in lack of local priorities, efficiency and

[57] See Land, Steffensen and Ssewankambo - The Ministry of Local Government in Co-ordination with the Donor Sub-Group on Decentralisation: *Programme Review of the Local Government Development Programme LGDP,* Volume 1, Main Report and Volume II Annexes, 2001.

ownership. Finally, most respondents mentioned that the fact that local accountability mechanisms are still weak – low client power – has compromised efficiency.

Problems with non-PAF Spending Areas

88. Although the PAF arrangements have ensured an increasing focus on the key PEAP areas, these arrangements have led to an (unbalanced) severe cut of non-PAF areas and areas outside of the SWAp arrangement, like funds for supervision and inspection of LGs, and administration of the Education Department in the LGs. This will be particularly important in the future system of LG finance – see B 8.

Institutional capacity

89. There is much anecdotal evidence indicating that the service delivery implementation capacity at the LG levels is still low, but significantly higher than when GBS was introduced. The related GBS support, in terms of funds for staffing, capacity-building support in planning, budgeting and financial management, e.g. through the PAF monitoring funds, has facilitated this positive development. Particularly TA support rendered to accountants from the various programmes, the DFID-supported DSP, the EFMP II, and LGDP systems, have all had a positive impact on the performance of LGs. Under the LGDP, the size of the grants for investments in service delivery is linked to the performance of LGs as institutions. This has promoted the development of LG incentives to improve performance[58]. But there are still weaknesses at the LG levels, in terms of problems with individual staff incentives and lack of possibilities to attract certain types of staff to remote areas.

Accountability and Voice

90. GBS has not in itself had a major impact on accountability and on possibilities for encouraging a "citizen's voice", but the manner in which it has been implemented matters. There are numerous reports, confirmed by the field trips, that the PAF earmarking of grants and the manner in which these have been organised from the beginning of the GBS, with strong links between the sector ministries and the sector departments of the LGs, have *impacted negatively on the involvement of citizens*, particularly on the incentives to contribute actively to the decision-making, co-funding, in the control and follow-up and the focus has tended to be on up-ward rather than downward accountability.[59]

91. However, in the most recent years, a number of important initiatives have been taken to improve on this. Among these are: the FDS (see Section B4), participatory planning guidelines, issued by MOLG, roll out of the LGDP-II grant modality with strong focus on participation and local priorities, etc.

Sustainability

92. The basic administrative capacity of the institutions' systems to deliver services and procedures for planning, budgeting, accounting and auditing have been gradually improved and have increasingly focused on public accountability, supported by the PAF monitoring system and support – and other GBS initiatives.

93. However, the dependency of LG on CG transfers has increased, and thereby reduced the downward accountability and the interaction between the LGs as service providers and the

[58] See annual synthesis assessment reports from the Ministry of Local Government, e.g. Final National Assessment, March 2005.
[59] See, e.g. The Way Forward, 2001, op. cit; Kasumba and Land, 2003 op cit, and Steffensen Tidemand and Ssewankambo, 2004, op. cit.

beneficiaries. Lack of citizens' involvement in the participatory planning and budgeting processes, and the lack of control of the performance of LGs, were mentioned by many respondents as some of the key future problems. Certain grant systems, like the LGDP, which transfer funds in performance-based modalities to the lower levels of LGs, have been more empowering than others. Many innovative initiatives such as publication of transfers, budget conferences involving citizens, participatory planning approaches, etc. have been introduced to address these challenges.

94. A genuine nation-wide CB programme has been put in place since 2003 to address the generic issues of the LG capacity and to enable LGs to involve citizens better in these areas. But more could be done to provide access, enhance involvement, and allow an effective voice of beneficiaries in service delivery. The TA/CB support associated with the FDS reform has just started and, as mentioned, is not yet covering the entire country.

95. Overall it is found that the process at the end of the evaluation period (2004) was in a conducive phase. There were improvements in planning, budgeting and financial management systems, and reforms were emerging to address the key issues related to the lack of flexibility in the PAF grant systems – and sustainability problems with decreasing LG own source revenues. However, a number of events from 2004 onwards deserve further attention, particularly in view of the future impact on sustainability and functioning of core LG institutions – see Section B8.

B7. Poverty Reduction

96. The observations from the field visits to the districts, and reviews at the central level, suggest that the overall poverty has been reduced in accordance with the official figures, and that increase in the service delivery, largely funded by the GBS through PAF, has contributed to this development. The great inflow of funds to LGs would not have happened without this modality, and would not have led to the same efficiency in resource allocation. However, there was also a perception that the gap between the rich and the poor has widened and that the system leaves room for improvement.

97. Some of the reasons mentioned were: lack of funds for service delivery despite the significant increase over the past 10 years (the total grants to LGs stood at only USD 17 per capita in 2003/04),[60] lack of flexibility in the grant system to respond to local problems and peculiarities, e.g. to address agriculture production needs; weaknesses in the FDS roll-out; lack of ownership in the LG service delivery processes related lack of LG own-source revenues; too much focus on quantity instead of quality; cases of LG inefficiency and corruption; inadequate supervision (and coordination of this) and CG backstopping capacity and willingness to support from the centre; and insufficient capacity at LG levels. Finally, the two most important areas, according to most respondents, were: lack of peace in certain areas of the country and insufficient attention to the issue of production (agriculture).

98. Most respondents raised the issue of a strong bias in favour of service delivery in the social areas (health and education) rather than on production. Although the proportion of LGs' expenditure on production has increased from 1.2% in 97/98 to 3.7% in 2002/03, it is still a small amount compared to education (42%[61]), which has a longer-term impact on poverty alleviation. However, it is questionable whether there would have been a significant different overall sector allocation if other aid modalities were applied. A review of the LGs' use of non-sectoral grants

[60] This is compared to 12 USD in Tanzania; see Steffensen and Tidemand, Synthesis Report, 2004.
[61] Steffensen, Tidemand and Ssewankambo, Volume II, Annex 4.2 op cit.

and of various district support programmes suggests the same bias, although LGs, if allowed more autonomy, tend to focus more on roads and tangible results.

99. Despite these problems, it is found that the GBS, through the support to TA, alignment to government systems and procedures, harmonisation through improved LG PFM systems, and increase in effective resource allocation to poverty sensitive service delivery areas, have all had an overall *positive impact* on poverty alleviation over the past 10 years. The issues of governance and future sustainability, briefly outlined below, may impact on this conclusion in the coming years.

B8. Sustainability of the GBS Process within Decentralisation

100. It is found that funds to LGs services will continue to flow, although not at the same increasing pace as in recent years. In this light, future adjustments and priorities will be required. However, there are a number of recent events, which if not properly mitigated, might lead to great risks for the future decentralisation objectives in Uganda (on service delivery, governance, participation and empowerment).

101. First, LGs are becoming increasingly dependent on CG/donor funds (own LG revenue sources have declined from 35% of total funds in 1995/96 to less than 10% in FY 2004/05). It is clear that the large increase in transfers is among the factors that have impacted negatively on LG own-source revenue mobilisation.[62]. Recent measures related to the abolition of the most important LG tax revenue source – the Graduated Tax (G-Tax) – without prior elaboration of alternative measures, will further undermine LG ownership of the investments and service facilities, LG possibilities to cater for operational and maintenance and safeguard the large increasing stock of investments in infrastructure and service facilities, co-funding of programmes, core administration functions important for service delivery, efficiency, autonomy, participation and operations of lower levels of LGs, people's sense of being a part of the LG society – and production efforts, interaction between politicians and citizens and longer term LG sustainability.[63]

102. There is a general understanding that the legal framework and practice of G-tax administration was far from ideal, and that improvements were required. However, the downward trend in own-source revenues (caused by high level political "signalling" and lack of incentives to collect, particularly due to the fast increase in CG transfers, lack of a conducive LG tax legislation, and weak administration in tax collection) was being gradually addressed by a number of TA/awareness raising activities,[64] introduction of improved procedures for tax collection and the LGDP minimum conditions for grants, which had introduced stronger incentives to improve on the LG own-source revenue mobilisation. According to the district findings, these initiatives have started having some initial impact on the trend in own source revenues.

103. These positive signs will be fundamentally undermined by the recent abolition of G-tax, which is expected to impact negatively on the collection of other taxes as well. It was stated by the districts and the associations of LGs, as well as donor representatives with district support

[62] The theoretical basis for this is available in: Prud'Homme, R: *"Fiscal Decentralisation in Africa", in* Public Administration and Development, UNCDF, Volume 23, No. 1, p. 25, 2003 and the practical documentation in Steffensen and Tidemand ibid.

[63] These problems are well documented in the recently published JARD documents, Ministry of Local Government, 2004 and in Walter Mahler's report: "*Options for Financing Local Government in the Ugandan Context"*, February 2005.

[64] LGFC has published a number of publications on best practices and disseminated these during a serious of workshops in 2003/04.

programmes, that the abolition, even if fully compensated (which is highly unlikely as this would require more than UGS 59 billion.[65]) would impact negatively on the key areas usually funded by LG own source revenues, such as the internal audit functions, the key administrative areas, the Finance Department, part of the sector administrations, accountability functions, councils operations, etc. and, particularly for the lower levels of governments, the sub-counties.

104. Second, there are clear signs of *recentralisation*. One example of this is the fact that in future the council chairmen and the executive committee will be paid by the CG, and not from LG revenue sources – and the Chief Administration Officers (CAOs) will be appointed and controlled by the CG. This will mean that the possibilities of the LG councils to control and impact on the performance of the administration will be reduced and the accountability between the administrative and the political tier of governance will be undermined. This will ultimately impact negatively on the accountability downward vis-à-vis the constituencies.

105. Third, a process of restructuring of the LG administrations has been initiated without sufficient planning and funding, leading to frustrations and confusion at the LG level.

106. Fourth, the recent announcement of additional 20 new districts will undermine the limited administrative capacity and efficiency as some of these may not be viable units and will add to the financial burden of the CG.

107. Fifth, the proposed Constitutional amendment to introduce regional tiers leaves a number of operational issues unresolved, including the relationships between the CG the regional tier and the LGs, the roles, staffing and funding, etc.

108. It is obvious that almost all future LG activities will be funded by the centre, some of these without sufficient financial compensation, leading to a further weakening of the LG position and the downward accountability. Many respondents mentioned that these initiatives, taken together, will be the "end of the decentralisation" if not properly addressed in the future strategy.

109. The GBS has had no positive impact on these issues, and the issues have not even been mentioned ("safeguarded") in the PRSC 1-4 dialogue, (although some of the initiatives have been planned over a longer time), which has focused on some technical and PFM issues.

110. The internal lessons learned by the decentralisation stakeholders from Uganda and the donor community have been that a more proactive strategy is required, including the establishment of a SWAp for decentralisation,[66] networking between the Ministry of Local Government, MFPED, sector ministries, LGFC, associations of local authorities and the like-minded donors. This will encompass the development of a strategy for decentralisation, a costing of an implementation plan, a yearly review (follow-up on the JARD 2004), and monitoring systems. Key policy issues will also have a more prominent role in the future PRSCs, particularly on sustainability issues (local taxes), supervision and the role of the MOLG and the need for a strategic plan. Finally, the involvement of the sector ministries in the decentralisation reform process will be more actively pursued, as well as the coordinating role of the MOLG.

[65] Based on estimates from the LGFC, April 2005.
[66] It should be mentioned that decentralisation is not a typical sector as it has cross-cutting features. However, some of the same tools as for the sectors may be applied, such as a clearly defined working/strategic group, strategic plan and clear policy, costing of activities and implementation arrangements.

111. It has increasingly been acknowledged that "*decentralisation has been living its own life*" and that the lack of a SWAp and a strategic framework has been detrimental in a situation where the policy environment can easily change. Feed-back from the process has been provided, and lessons learned; however, many respondents have asked whether these measures have been initiated too late.

C. Overall Conclusions and Recommendations

C1. Evaluation and Conclusions

112. GBS has strongly facilitated an increase in funding of LG services and service delivery, particularly in the PAF areas, which would not have happened to the same extent with alternative aid modalities. The combination of General Budget Support, the PAF ring fencing of funds, the SWAps and the intergovernmental fiscal transfer system, has provided both the sector ministries and the donors with sufficient confidence that funds will be channelled through the LGs towards service delivery.

113. This has also happened through a positive impact on a gradual harmonisation and alignment with GOU procedures and support to improved coordination of the capacity building to LGs. This has enabled the LGs to fulfil many of their service delivery responsibilities as stipulated in the Constitution, 1995 and the LG Act, 1997.

114. On the negative side, there have been problems with LG autonomy and lack of flexibility, problems with the long term sustainability, increasing dependency due to lack of an overall strategy and measures to improve LG own-source revenues, a tendency to focus on upward accountability (a kind of a deconcentration mode promoted by the strong SWAps and PAF conditionalities) rather than downward accountability and decentralisation by devolution.

115. However, important measures like the FDS (2002-), the LGDP-I (2000-03) and LGDP -II (2003-) and other initiatives (participatory planning tools, TA, etc.) have been launched to pursue the difficult tasks of combining the adherence to national PEAP targets, confidence in the safeguarding of funds and minimising of risks with the aims of ensuring the devolution of power, strengthening of the local ownership, downward accountability and decision-making power in accordance with the original decentralisation objectives on local empowerment.

116. The recent policy initiatives will have a severe governance impact. However, these recent events should not overshadow the past 10 years' experiences of a system that has gradually built up capacity at the local level to respond to service needs, gradually, although slowly, improved the weak interaction with the citizens, gradually provided more openness in administration (e.g. publication of transfer figures, planning and budgeting conferences, etc.), and innovative initiatives such as the LGDP and the FDS to improve the LG performance incentives and the LG planning and budgeting autonomy and performance. Overall the GBS has had a moderate positive impact on this process, but development of efficient tools to improve the downward accountability continues to be a future challenge.

117. Some of the recent developments have been of a highly political nature. But it has been acknowledged that the lack of an overall strategy on decentralisation, the fact that the PEAP has not sufficiently addressed the decentralisation issues, the absence of a SWAp with a clear strategy, structure, funding arrangements and policy and review process, has made it easier to “swing the pendulum”.

118. Conflicts between the “decentralisation group” (MOLG, LGFC, ULAA and the “like minded donor representatives”) on the one hand, and the main sector ministries on the other, have been increasingly addressed – but there is still a long way to go in mutual recognition and coordination.

119. In future, there is a need for better linkage between the decentralisation reform agenda and the:

- Sector reform work;
- Public administration reforms;
- Public financial management reforms;
- PRSC framework and the dialogue on the actions and prior actions (matrixes).

Furthermore there is a need for a high policy-level coordination of the overall decentralisation reform process and a stronger move towards strengthening of the downward accountability and involvement of citizens in local decision-making and supervision.

120. The first step will be the development of an overall strategy on decentralisation to avoid movements in various (conflicting) directions, and common initiatives to ensure that decentralisation is getting a stronger role in the overall reform process. The JARD, 2004, coordinated by MOLG and supported by the DDSG, was a promising initiative, but it needs a more prominent place and a serious follow-up. It should also be acknowledged that new PEAP 2004/05-2007/08 has highlighted a number of the future challenges, particularly the need to increase the LG own source revenues towards a more sustainable system.[67]

121. As mentioned in a recent OECD evaluation:[68]

> Partner Governments should make sure they keep to their commitments concerning decentralisation in practice and donors, for their part, should clarify their policies towards SWAps, PRSP and decentralisation, and identify those aspects of their country support that lack coherence and compatibility.

[67] Poverty Eradication Action Plan (2004/05 – 2007/08), Ministry of Finance, Planning and Economic Development, p. 118 and p. 235, where it is stated that the LG revenue, as a share of the total LG budget, should increase from 6% in baseline year, 2002/03 to 9% in 2007/08. With the abolition of the G-Taxes, it is hard to see how this should be fulfilled.

[68] OECD, DAC Evaluation Series – Lessons Learned on Donor Support to Decentralisation and Local Governance by Schou, Arild and Steffensen, Jesper, 2004.

Attachment 1: Overview of the Development in Transfers to LGs 1995/96–2005/06

Grants	FA 1995/96		FA 1997/1998		FA 1998/1999		FA 1999/2000		FA 2000/01*		Release 2001/02 **		*B2002/2003*		Releases 02/03		*B2003/04*		*Releases 03/04*		*B 2004/05*		*B 2005/06*	
Type	UGSH	Share %	UGSH	Share %	UGSH	Share %	UGSH	Share %	UGSH	Share %	UGS	Share %	UGSH	Share %	UGSH	Share %	UGSH	Share %	UGSH	Share %	UGSH	Share %	UGSH	Share %
Uncond. Grants	40.6	34.5	*54.3*	***24%***	*64.4*	*23%*	66.8	17.2%	79.1	15.8%	73.8	12.1%	77.4	11.6 %	76.9	11.7%	83.0	11.2%	83.6	11.5%	87.5	10.9%	119.65	13.8%
Cond. recur. Grants	77.2	65.5	*168.4*	*75%*	*202.1*	*71%*	275.2	70.7%	301.7	60.1%	395.6	64.8%	435.6	65.0%	428.1	65.1%	462.2	62.3%	470.7	64.8%	527.0	65.4%	550.35	63.6%
CG– Dev´t. Grants (a)	0	0	*2.2*	***1%***	*18.8*	*7%*	45.0	11.6%	117.1	23.3%	137.6	22.5%	152.6*	22.8 %	147.9	22.5%	193.3	26.0%	169.11	23.3%	187.4	23.3%	191.4	22.1%
Equal. Grants	0	0	*0.0*	*0.0*	*0.0*	*0%*	2.0	0.5%	4	0.8%	3.9	0.6%	4.3	0.6 %	4.2	0.6%	3.5	0.5%	3.3	0.5%	3.5	0.4%	3.5	0.4%
Total	***117.8***	100%	***224.9***	*100%*	*285.2*	*100%*	389.0	100%	502.0	100%	610.9	100.0%	**669.9**	100%	**657.1**	100.0%	**742.0**	100%	**726.7**	100%	**805.5**	100%	**864.9**	100%
Growth (%)						26.8%		36.4%		29.0%		21.7%		9.7%		-1.9%		12.9%				8.6%		7.4%

FA= Final Accounts.
Releases: Provisional releases (estimates)
Final Account figures: l997/98, 1998/99, 1999/2000, and 2000/01 and preliminary accounts for 2001/2002.
Budget figures: 2002/03, 03/04, 04/05 and 05/06
Sources: Decentralisation Sector. MOFPED, ULAA, LGFC, and calculations from the Fiscal Transfer Study (Jan 2001): LGDP MTR Programme Review Feb. 2002, Budget Speeches MoFPED, 2002, 2003, 2004 and 2005.
FA 1995/96: Decentralisation Secretariat, cf. Obwona, Steffensen et al. 2000.
FA 1997/98, 1998/99 and 1999/00 Source: FDS Final Report Fiscal Transfer Study, which applies data from MoFPED.
*FA 2000/01: As per the data bank in LGFC, there has been no collection of the actually released transfers. From the PER, Sept. 2002 publication, it appears that only B UGSH 453.6 has actually been released against the budgeted 500.9 B UGSH according to this source
Budget Releases 2001/02: Source Draft Estimates of the Revenue and Expenditure (Recurrent and Development 2003/04) MoFPED
Budget figures for FY 02/03, 03/04: LGFC and MoFED.
Releases for 2002/03: Source PER, the World Bank, September 2003.
Budget figures for 04/05 and 05/06 MoPFED, Budget Speeches.
Releases for 2003/04: Data received from LGFC.

(a)Definition of the "Development Grants

Demarcation of the Development Grants: Under this Group are classified development grants + 50 % of the road maintenance grants, which is assumed to be utilised on development investments (method applied since the FDS Study in 2000). The development grants also encompass the SFC + PHC (Dev.) + nonsectoral PMA grants + LGDP, + Dutch DG + NAADs, PHG Development and rural water grants and 50 % of the road maintenance grant
FY Budget release 2001/02 figure 610.87 B UGSH includes the District Referral Hospitals (FY 2001/02: 14.95 B. UGSH)

UCC

Unconditional Grants: Unconditional Grants to Urban and Rural Authorities. In practise most of these grants are "earmarked " for salary expenses on General Administration

Conditional Recurrent Grants:

Conditional earmarked grants within agriculture, health, education, water, roads, monitoring and accountability

PMA Non-Sectoral Grant.

PMA Non-sectoral grant in 2001-2003 classified as recurrent expenditure according to MTEF, but as "development" in this table.