Report Number : ICRR12723

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted : 08/13/2007		
PROJ ID :	P044679		Appraisal	Actual
Project Name :	Second Economic And Financial Management Project	Project Costs (US$M):	42.31	73.18
Country:	Uganda	Loan/Credit (US$M):	34.04	47.19
Sector Board :	PS	Cofinancing (US$M):	4.16	4.45
Sector(s):	Central government administration (53%) Sub-national government administration (39%) Adult literacy/non-formal education (8%)			
Theme(s):	Public expenditure financial management and procurement (29% - P) Municipal finance (29% - P) Economic statistics modeling and forecasting (14% - S) Decentralization (14% - S) Education for the knowledge economy (14% - S)			
L/C Number:	C3297			
		Board Approval Date :		11/30/1999
Partners involved :		Closing Date :	12/31/2003	12/31/2006

Evaluator:	Panel Reviewer :	Group Manager :	Group:
James Sackey	Gita Gopal	James Sackey	IEGCR

2. Project Objectives and Components:

a. Objectives:

The objective of the project was to improve the effectiveness of public expenditure management processes in Uganda through (i) improving and harmonizing the central and local government planning and budgetary processes and supporting the decentralization of the development budget; (ii) strengthening financial management especially through improving accounting processes; (iii) building capacity to monitor development performance, government service delivery and the impact of public expenditure on poverty trends; and (iv) testing the effectiveness and sustainability of a distance learning center (as part of a global knowledge-sharing program) in supporting capacity-building programs for the public and private sectors.

b.Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The project had four components:

Part A: Planning and Budgeting (Appraisal cost, US$9.93m; Actual cost, US$12.11m; IDA disbursement, US$6.78m). The component supported the strengthening of central and local government planning and budgeting processes through: (i) improvements in planning and budgeting functions and processes in the Ministry of Finance, Planning and Economic Development; (ii) improved transparency and accountability of budget and public expenditure processes including timely involvement of the relevant Parliamentary Committees; (iii) expanded fiscal decentralization processes; (iv) strengthened and more effective linkages between national and local government planning and budget processes; and (v) integration of recurrent and development budget.

Part B: Financial management (Appraisal cost, US$19.2m; Actual cost, US$41.67m; IDA disbursement, US$30.74m). The component supported the building of capacity to produce more timely, transparent and accurate financial and accounting information for both the central and local governments by (i) strengthening human resource capacity for maintaining and improving financial management systems; (ii) improving management of financial information and the provision of Information Technology (IT) support; and (iii) enhancing the capacity and effectiveness of external audit functions.

Part C: Statistical Capacity Building (Appraisal cost, US$8.38m; Actual cost, US$13.72m; IDA disbursement, US$7.08m). The component supported the building of capacity to monitor development performance, service delivery and the outcomes of public expenditures on living standards of population groups by specifically upgrading the internal capacity of the Uganda Bureau of Statistics (UBOS), among other things, to (i) undertake the National Service Delivery Surveys; and (ii) household expenditure surveys.

Part D: Global Distance Learning (Appraisal cost, US$3.4m; Actual cost, US$4.28m; IDA disbursement, US$2.42m). The component served as a pilot for testing the effectiveness and sustainability of distance learning in Uganda through support for (i) the construction and acquisition of equipment for a learning center; and (ii) the operation of the center.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The ICR provides conflicting cost estimates (in terms of both appraisal estimates and actual) for the various components of the project. The total actual project cost and the contribution by other development partners and the Government are not clear. Nevertheless, it appears the actual total cost of the project exceeded appraisal estimate by about 70 percent. There was cost overrun on all components, but especially for the financial management (117 percent), because of the cost underestimation for the procurement of the Integrated Financial Management System (IFMS). Although the project's components were not formally revised, changes in sub-activities were made (five changes were made to various schedules of the DCA) which involved dropping and adding new activities to accommodate IFMS, including a request at mid-term review for a supplemental credit of SDR 10.5 million (approved by the Board in October 30, 2003), and led to the amendment of the DCA dated November 25, 2003. The closing dates for the project were changed twice, extended to December 31, 2005 and later to December 31, 2006 to allow for the implementation of agreed programs, especially the IFMS.

3. Relevance of Objectives & Design:

The project's objectives were relevant in responding to the constraints facing the sustainability of Uganda's successful structural reform efforts implemented in the 1990s. These constraints included capacity limitations of government in planning and budgeting, financial management and statistical information systems. This was further exacerbated by the lack of sufficient numbers of skilled staff, especially of qualified accountants and economists. Furthermore, efforts to reach the poor through improved service delivery via decentralization required capacity building at the local government level.

Project design suffered from inadequate preparation at entry, which was later rectified at implementation. Project components were appropriate for the objectives defined. The capacity-building aspects, which dealt with training, recruitment and incentive structures were adequately designed at the onset and well monitored. The Integrated Financial Management System (IFMS), which would drive the system, was on the other hand treated as if it were a technological issue without adequate design effort and stakeholder consultation by project launch. This explains the delays experienced in the implementation of the component and the subsequent need for detailed re-specification. Similarly, the monitoring and evaluation systems suffered from inadequate results framework. The original key performance indicators (KPIs) were characterized by process indicators, which required reformulation during the project's mid-term review.

4. Achievement of Objectives (Efficacy):

The four main objectives of the project were executed through the four components of the project, which collectively sought as overall outcome, to improve the effectiveness of public expenditure management processes so as to impact on poverty reduction.

Improving and harmonizing budgetary processes : This objective and associated outcomes were achieved through the implementation of the activities outlined under the planning and budgeting component. The planning and budgeting process in the central and local governments were strengthened and harmonized. The key performance indicators (KPIs) in the revised results framework point to (i) reduction in the deviation between revenue forecasts and revenue collection from 11 percent in 2001 to 0.13 percent in 2006; (ii) reduction in domestic arrears from Ush 118 billion in 2001 to Ush 30 billion in 2003, but increased to Ush 172 billion in 2006 as a result of the lack of budget discipline resulting from election pressures; and (iii) maintenance of the level of supplementary budget with 3 percent of the approved budget, except for 2006 because of the pressures of the election. Because of the observed back-tracking on some of the indicators, the achievement of this objective is rated *modest.*

Strengthening financial management processes : Despite design limitations at project launch, the IFMS became central to the reform effort and accounted for the largest share of the total cost of the project and IDA's contribution. The estimated KPIs show that (a) the central government ministries now are able to produce financial statements within three months of the closure of the fiscal year; (b) audited financial statements are submitted to Parliament on a timely basis; and (c) the targets for accounting and auditing staff employed have been met. A qualitative and quantitative analysis conducted by the ICR (Annex 3) point to the perceived positive contribution by IFMS. With the local government adopting the IFMS, the system has ensured uniform reporting across the different levels of government and the achievement of the objective of strengthening the financial management process is therefore rated *substantial.*

Building capacity to monitor service delivery and poverty trends : This objective was achieved mainly through support provided by the project (with parallel financing from the Nordic development Fund (NDF), the UK Department for International Development (DFID) and the Danish International Development Agency (DANIDA)) to the Uganda Bureaus of Statistics (UBOS). Through the provision of a new office building, IT equipment, recruitment and training of staff, there have been (i) improved availability of statistical data on public expenditures and poverty trends; and (ii) timely availability (through different channels) of survey results and their use for policy dialogue. On the basis of the transformation that has taken place at UBOS, the achievement of this objective is rated *substantial.*

Testing the effectiveness and sustainability of distance learning : Although this objective was experimental, intended to evaluate the cost effectiveness and sustainability of distance learning system, the achievement of the objective could be rated *high*. The center was able to generate revenue to cover about 60 percent of its cost, even under restrictions imposed on use by WBI. Utilization of the services increased from 34 percent in 2001 to close to 98 percent in 2006, against the target of 73.3 percent established in 2003.

5. Efficiency (not applicable to DPLs):

Although no ERR/FRR were estimated at appraisal, the ICR carried out an analysis in the context of the Integrated Financial Management System (IFMS) to ascertain whether the component was yielding desired net benefits. The evaluation utilized both qualitative and quantitative data and covered (i) observed changes from baseline in the perceptions of IFMS users; (ii) IFMS users perceptions of benefits from the system; (iii) IFMS clients perceptions of benefits from the system; and (iv) IRR and NPV were estimated for IFMS at two sites (Lira and Jinja districts). While the estimated IRRs were high (61 percent and 77 percent respectively for Lira and Jinja), it was not possible to evaluate the robustness of the estimates for all sites, ascertain the methodology used in measuring benefits (total savings), and determine the relative share of Lira and Jinja in the total IFMS program.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Despite the start-up delays, the project generated the desired results in the form of improved and harmonized government planning and budget processes resulting in timely reporting and transparency. The IFMS provided a framework that is likely to lead to improve effectiveness of public expenditures, to be achieved through enhanced priority setting for resource delivery, improved fiscal discipline and financial accountability (although the latter would require commitment at the political level). The support for UBOS and the distance learning pilot complemented these outcome by ensuring sustainability through improved monitoring and evaluation, and access to learning opportunities for capacity building.

a. Outcome Rating: Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The main risk to the development outcome lies in the unpredictability of the political process in Uganda. The failure to achieve the budget targets established under the Results Framework was attributed to the pressures exerted by the election process in 2006. Lack of budgetary discipline and uncertain political environment, which do prevail in Uganda, could easily derail progress achieved through the implementation of the project. In addition, the project supported 1619 staff from central and LGs for professional accounting courses (CPA, ACCA, ATC), but given the relatively low government salary scales, it is unclear how many would leave for higher paying private sector jobs.

a. Risk to Development Outcome Rating: Significant

8. Assessment of Bank Performance:

Bank performance was affected by weak quality at entry concerns, which were compensated by an active supervision program. Quality at entry was affected by two events: first, a long delay between project approval and effectiveness brought about by cumbersome government bureaucratic processes which were inadequately anticipated by the Bank team. The second factor was that the key IFMS program was poorly prepared and its implementation was delayed because of weak design and costing, which required substantial redesign that resulted in the need to extend the closing date for the credit.

Project supervision was well organized. The Bank maintained the same task team leader (TTL) and fielded on-site visits with appropriate expertise. The Bank's Country Office provided day-to-day support to their government counterparts as necessary. The supervision missions were also pro-active and helped resolve impending issues before they became constraints to project implementation. The timely conduct of the mid-term review did salvage the project from a poor start-up status.

a. Ensuring Quality-at-Entry: Moderately Unsatisfactory

b. Quality of Supervision: Satisfactory

c. Overall Bank Performance: Moderately Satisfactory

9. Assessment of Borrower Performance:

Weak Government performance at project launch was reflected by inadequate capacity to anticipate the requirements of the project, especially in preparing the IFMS and the GDLC. Performance during implementation was also affected by delays in parliamentary approvals, which subsequently required amendments to the DCA. Achievement of some performance benchmarks were also affected by inadequate budget disciple on the part of Government.

The implementing agencies along with the PCU worked satisfactorily in dealing with administrative requirements of the project in terms of procurement, project financial management, progress reports and audits. Although the project got off to a slow start, implementation picked up as the implementing agencies begun to own the process.

a. Government Performance: Moderately Satisfactory

b. Implementing Agency Performance: Satisfactory

c. Overall Borrower Performance: Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

The project design incorporated the M&E framework as a key component. Support to UBOS built the capacity of Government for the implementation of the overall M&E structure and defined the framework for coordinating and harmonizing data generated by the IFMS and the planning and budgeting process. The PCU consolidated the project specific information and carried out the M&E functions which permitted adjustments to project implementation processes as necessary. The quality of data which fed into the KPI made it possible to undertake a results based evaluation of the outcome of the project.

a. M&E Quality Rating: Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The project complied with all safeguards and fiduciary issues. Although the initial environmental rating was inappropriate, a detailed EIA was later carried out and due process followed for civil work associated with the support to UBOS.

12. Ratings:	ICR	IEG Review	Reason for Disagreement/Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Moderate	Significant	There is significant risk: (i) because of the likelihood of weak fiscal discipline during an election year; and (ii) the uncertainty associated with the political process in the absence of a clear policy for transition, which could result in weak commitment to public finance management.
Bank Performance:	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance:	Satisfactory	Moderately Satisfactory	Rated lower because of (i) failure by authorities to anticipate parliamentary requirements for processing project issues, leading to long start-up delays; and (ii) the lack of budgetary discipline during the election year, which posed a risk to the integrity of the fiscal system.
Quality of ICR:		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

IEG agrees with the four lessons outlined in the ICR. In addition, IEG notes that timely implementation of a mid-term review is likely to help salvage a seemingly poorly prepared project (or its components) from unsatisfactory performance. The changes suggested by the mid-term review with respect to the IFMS and the proposal for supplementary credit and extension of credit closure helped turn the project around.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR was well prepared, frank and concise. The discussion was result oriented and followed the results framework outlined in the PAD and revised during the mid-term review. The lessons learned are derived from the

outcome of the project implementation process. The cost and financing data in the annex should have been made consistent with those in the main body of the report.

a.Quality of ICR Rating : Satisfactory