Statement by Jan Piercy  
Date of Meeting: November 16, 2000

Uganda: Country Assistance Strategy

Introduction:

1. We would like to commend staff on a clear, direct strategy for Uganda over the next three years. The CAS also proposes a shift in how the Bank provides assistance to Uganda. While we have concerns about the proposed change in the Bank's lending approach, we believe the Bank is proceeding with appropriate caution. We applaud Uganda for its poverty reduction efforts, which have resulted in a decline in poverty of over 20 percent. We expect that this strategy will support the continued trend.

Lending Strategy:

2. The CAS outlines a significant shift to a new and untested instrument -- the Poverty Reduction Strategy Credit (PRSC), to comprise 40 percent of Uganda's program. This yet to be designed instrument entails a substantial reorientation from a macroeconomic and project focus to a sector level and budget support strategy. We have concerns about shifting abruptly to budget support and a PRSC without clearer delineation how the approach will work. We understand that the Bank is proposing the novel lending strategy because Uganda has demonstrated its capacity and commitment to macroeconomic reform. Uganda has made marked progress on budget structure and management of public expenditures. Despite Uganda's good track record, the Bank should proceed cautiously with this new instrument in order to ensure that the program is carefully designed. Uganda has the requisite solid foundation of diagnostics from which to test this new lending approach, but the lending program design needs clear triggers for lending scenarios related to benchmark indicators with the PEAP/PRSP. We would have liked more information on the design and specific benchmarks contemplated, but we understand from staff that the projects are in early design stages because they are taking the time to design a clear, measurable and monitorable program. We hope the Board will be kept fully informed as these benchmarks unfold.
3. We strongly support staff’s measured approach to designing the specifics of the Uganda program. The effectiveness of the PRSC depends upon getting the process right. Uganda’s strong track record on economic performance and its demonstrated commitment to poverty reduction make it a strong candidate for PRSC lending, but successful implementation still poses major challenges. We encourage the Bank and Uganda to take as much time as necessary to ensure a well targeted program with the right policy parameters needed to effectively deliver results. We understand that there is not a great deal of detail on the PRSC because the Bank is still in the "pre-design phase." The CAS outlines a broad focus on health, education, water and sanitation and rural development sectors as well as attention to cross-cutting issues of procurement and financial management. While we endorse the focus, it would be useful for the CAS to outline more clearly such things as the complementarity and sequencing of the cross-cutting initiatives. Given the vagueness of the plans at this stage, and the lack of precedent for reliance on PRSCs, the Board needs to be kept apprised as the program is finalized and implemented.

4. Annex 4 raises some questions about implementation and progress within the roads portfolio, where all four projects have significant undisbursed balances and one is labeled a potential “problem” project. We were, therefore, struck by the two rather large loans to this sector in the proposed pipeline at $90 million in FY 2002 and $85 million in FY 2003. We would appreciate staff’s comments on this.

Good Governance:

5. We appreciate the CAS’ candid discussion of good governance and anti-corruption. Strengthening governance and eliminating corruption is critical to Uganda’s economic, social and political development. Good governance is fundamental to mobilizing private sector confidence. Uganda’s ability to sustain the momentum of economic growth depends on creating a much more transparent, accountable governing system. Bolder anti-corruption action is required. We believe the CAS appropriately focuses on strengthening the Inspector General of Government, the Minister of Ethics and the Accountant General. Continued leadership of the highest levels of Uganda’s government is vital to the effectiveness of these measures. The government has laid out an anti-corruption strategy, but the strong words in this plan must be implemented and supported by unequivocal action, particularly in light of the fact that efforts to combat corruption in the past have demonstrated only limited effectiveness. In this regard, we understand from staff that the Bank plans to help the government strengthen both internal oversight and accountability functions within the government, as well as those of civil society, and that it hopes that the PRSC instrument will facilitate this goal. We agree with this strategy and feel this should be folded into the governance triggers noted in the document that are still quite vague.

6. Overall public service reform is imperative as Uganda continues its decentralization efforts. The CAS identifies improving service delivery as a government and Bank priority. While decentralization addresses these challenges, it can also create inefficient, corrupt local systems without adequate attention to institutional capacity and accountability.
7. Transparency and accountability are critical on public expenditures. We are pleased with reports that Uganda's commitment to reformed budget structure and management of public expenditures has remained steady. Military expenditures are a part of the entire public expenditures picture and must, therefore, be an integral part of the formal, transparent budget process. Discussion of public expenditures writ large is not detailed enough in the CAS. We understand that Uganda has maintained a level of military expenditures of 2 percent of GDP. Given the level of poverty among Ugandans and the development priorities needed to reduce this poverty, that appears to be a reasonable level to maintain. Budget levels and allocations are ultimately sovereign decisions, but transparency on expenditures -- including military spending -- is key to public accountability.

8. We question the omission in the CAS of adequate analysis of unrest both within and beyond Uganda's borders. We expect staff to elaborate on this in the CAS discussion. Conflict has destabilizing potential that we cannot ignore.

Economic Growth:

9. The CAS' discussion of private sector development is excellent and well focused. Continued reform in the areas of good governance and anti-corruption reform will improve confidence among investors and among Ugandans in the systems that serve them. It is unrealistic to expect necessary private sector confidence unless additional concrete steps are taken to establish an environment of transparency and accountability. Given the need to define job-creating growth strategies, we endorse the Bank's efforts to increase its focus on creating a more favorable investment environment.

10. Diversification is similarly important for Uganda's growth. While the need for economic diversification is recognized in the CAS and the PRSP, it presents no concrete plans for achieving sustainable diversification. We would appreciate staff's comments on government plans toward diversification.

11. We welcome discussion of the decreasing disparities in policies applying to women. The CAS highlights the fact that much more has to be done -- particularly regarding women's access to land. Given Uganda's dependence on agriculture and its dependence on women for agricultural labor, discriminatory restrictions on women's access to land must end. Empowering women -- one of Uganda's greatest resources -- is essential to economic take off.

Donor Coordination:

12. We commend the selectivity of the Uganda CAS. We welcome the CAS' clarification that other donors will maintain the lead on judicial reform while the Bank supports continued public service reform. It appears that there is still significant overlap in rural development, education, health and decentralization sectors. It would be useful to have a short discussion of donor coordination by each sector with a focus on comparative advantage, as the CAS begins to do in paragraph 47A. It would also help to know where donors are involved and how many resources they are devoting to a given sector.
Social Sectors:

13. Continued decline of the incidence of HIV/AIDS -- particularly among Uganda's young adults is encouraging. The government of Uganda's vocal, public efforts have made a tremendous impact on slowing the deadly trend of HIV/AIDS. The health system, however, is strained by the number of sick and orphaned. The government must continue its commitment to HIV/AIDS, in the context of strengthening the entire health system, particularly in targeting the needs of the poor where child mortality continues to remain high.

14. Uganda's concentration on the quality of education is well founded. We would like to better understand what improving "service delivery" includes. Both the education and health sector indicators have improved, but they remain low for sub Saharan Africa, indicating continued need for prioritizing social sector investments. We would appreciate Staff's comments on the fact that Table 4 indicates very little change and even a slight decrease in health and education expenditures.

Environment:

15. The CAS notes that environmental sustainability is key since 90 percent of the population is dependent on the country's natural resource base. At the same time, the CAS reports that the government's legislative and regulatory framework to facilitate sound environmental management remains hindered by institutional weaknesses. To what extent will the Environmental Management Capacity Building Project II noted in paragraph 19 address these fundamental problems?

Conclusion:

16. We commend staff on the thorough presentation of Uganda's new country strategy. We agree that Uganda remains on track regarding promised reforms, but the government must take bolder actions to more effectively implement anti-corruption and public sector reforms to secure necessary economic growth. Given Uganda's performance and the care Management indicates it is taking to design the PRSC, we accept the shift in the lending approach to Uganda, if the Board is kept informed as the PRSC takes shape in coming months. Developing clear, measurable triggers and linking the PRSC to the PRSP/PEAP are important to include in the final Uganda program.