Report Number: ICRR14747

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted:	06/09/2015	
Country:	Uganda			
	Is this Review for a Programmatic Series ?			● Yes ○ No
	How many operations were planned for the series?			2
	How many were approved?			1
Series ID:	S117979			
First Project ID:	P117979		Appraisal	Actual
Project Name:	Uganda - Financial Sector Dpl (1 Of 2)	Project Costs (US$M):	50	50
L/C Number:		Loan/Credit (US$M):	50	50
Sector Board:	Financial and Private Sector Development	Cofinancing (US$M):		
Cofinanciers:		Board Approval Date:		06/30/2011
		Closing Date:	06/30/2012	06/30/2012
Sector(s):	General industry and trade sector (25%); Banking (25%); Housing finance (25%); Compulsory pension and unemployment insurance (25%)			
Theme(s):	Other Private Sector Development (50%); Regulation and competition policy (42%); Financial Consumer Protection and Financial Literacy (8%)			
Evaluator:	Panel Reviewer:	ICR Review Coordinator:	Group:	
Zeljko Bogetic	Robert Mark Lacey	Lourdes N. Pagaran	IEGPS2	

2. Project Objectives and Components:

a. Objectives:

The **overall objective** was *to help build a more efficient, robust and deeper financial sector which can support broad-based private sector growth. The* **specific objectives** *were (i) Supporting development of the market for term finance; and (ii) improving access to financial services*. (PD, paragraph 32). This ICR Review will use these program objectives as basis for validation.

b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

c. Policy Areas:

Policy area/pillar 1: supporting development of the market for term finance (which is identical to the first specific objective).

Under this pillar, the Development Policy Operation (DPO) supports (i) a reform of the pension system, (ii) strengthening of institutional arrangements for mobilizing long-term funds, including through Public Private Partnerships, and (iii) the development of the housing finance market.

The following five prior actions supported reforms under this pillar:

1: Conduct an independent review of National Social Security Fund (NSSF) investment policies and practices.
2: Conduct an actuarial evaluation and simulation of reform options for the Public Service Pension Fund (PSPF).

3: Submit Uganda Retirement Benefits Regulatory Authority (URBRA) Bill to Parliament.
4: Put in force the Mortgage Act regulations.
5: Adopt a policy paper on Public Private Partnerships (PPP), prepare and submit the PPP Bill to Cabinet and establish the non-statutory PPP unit.

Policy area/pillar 2: improving access to finance to financial services (which is identical to the second objective). Under this pillar, the DPO seeks to improve the lending environment and strengthen payments and settlement systems.

The following three prior actions supported reforms under this pillar.

6: Adopt complementary Financial Institutions Statutory Instruments and submit amendments to 2004 Financial Institutions Act (FIA) to Cabinet.
7: Put in force Small Claims Procedure rules.
8: Issue Consumer Protection Guidelines.

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

The loan amount, $50 million equivalent, was released in a regular, single tranche on November 3, 2011 The loan was closed on June 30, 2012. ICR was prepared two and a half years later, on January 26, 2015.

The second DPO in the series did not proceed because of the delays in implementing some key elements of the reform, and related questions about the government's continued ownership of the reform agenda.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial. The overall objectives of the series were aligned with the Bank's Country Assistance Strategy (May 2010, covering the period FY2011-15), which was also aligned with the Government's National Development Plan (NDP). The series was aligned directly with the first CAS objective of promoting inclusive and sustainable growth and the associated outcome of improved conditions for private sector growth (Uganda CAS 2010, p. ii). The other CAS objectives were enhancing public infrastructure, strengthening human capital development, and a cross-cutting objective of improving governance and value for money. The series was also aligned with the 2008-2012 Financial Market Development Plan (FMDP), which aimed to improve access to financial services and the availability of term finance. The objectives remained broadly relevant following the global financial crisis. The pension system continued to cover a very small part of the population. Despite initial reforms, the key issue remained: Government's commitment to public service pension payments was unsustainable. Access to finance and financial literacy remained very low.

The DPO objectives were, however, very ambitious, as acknowledged in the PD (paragraph 29). This has affected implementation, as noted in the ICR (paragraph 65). Also, it appears that access to finance was the more important of the two objectives from the point of view of poverty reduction. For example, the public Service Pension Fund covered a very small part of the population (about 260,000) and was providing generous benefits (PD, paragraphs 34-35). By contrast, 28 percent of Ugandans were estimated to have no access to any financial services (PD, paragraph 72). The development of the term finance market and pension reform would thus appear to be longer term and of less urgency than access to finance. Nevertheless, design focused more on these objectives and related prior actions than on access to finance.

b. Relevance of Design:

Modest. The results framework was built around the two aforementioned policy areas or pillars, comprising nine "expected outcomes" (Results Matrix, Annex 2 of PD) or results. Of these, four are under the first pillar and five under the second.

The two policy areas and pillars are broadly consistent with, and relevant to, the overall objective, as are the eight prior actions. However, the quality of the prior actions could be questioned. Most are process-type actions which do not necessarily result in sustained reform and implementation. With the exception of the URBRA bill, the institutional depth" of these actions is low and their link with objectives and policy implementation, weak. The PD does not make a convincing case why the selected actions would be critical to the achievement of target indicators.

Several actions appear to be of less than critical importance. Also, they are only limited, initial steps, which are weakly linked to the objectives over the horizon of the series (e.g., a policy paper on PPP, and conducting an independent review of the National Social Security Fund (NSSF) investment policies and practices, and an actuarial evaluation and simulation of reform options for the Public Service Pension Fund (PSPF)).

In other areas, planned reform actions were overly ambitious, including "the enactment of completely new laws and significant amendments of the existing ones as well as gazetting complementary financial sector statutory instruments and regulations" (PD, paragraph 81). The breadth of these reforms combined with the short time for loan preparation, and the long-term nature of the pension and financial regulation measures, raises not only the issue of overambition, but also consistency with the de facto ownership of the client government, given its limited institutional capacity. The first lesson learned from the previous PRSCs was that "Strong ownership and strengthened capacity of the institutions involved in the reform are key factors of success (PD, paragraph 29)."

The three prior actions in support of the access to finance pillar appear weakly related to the target indicators on the share of population formally served by financial institutions, share of formally served population in rural areas, and share of the excluded population. More broadly, the PD does not provide a convincing narrative of how or why the prior actions, may be expected to achieve the desired outcomes.

4. Achievement of Objectives (Efficacy):

Objective 1: supporting development of the market for term finance Modest.

Many outcome indicator targets related to pension reform and financial sector regulation were not achieved. For example, clearance of pension arrears was not completed. There were major delays in the reform of the public service pension funds. The reform of the Uganda Retirement Benefits Regulatory Authority (URBRA) was incomplete: it is unclear if the target share of occupational schemes (pension schemes for specific professions) has been met. The lack of a Chief Executive Officer and key staff indicate that an efficient internal organization of the URBRA is not yet in place. There was considerable delay in the passage of the legal framework for PPP so that the target increase in infrastructure finance was not achieved. Despite the ICR's statement to the contrary (Table 3, paragraph 68), the yield curve on government bonds beyond 120-month maturity has not become elastic (the elasticity measures the extent to which yields vary with respect to changes in maturity) -- the actual elasticity remains very low (the yield on 10-year bonds is 13.94% and that on 15 year bonds is 15.25%).

Achievements with regard to specific outcome targets were as follows (the baseline and target date for all indicators, except no. 10 are 2009 and 2014 respectively):

1. Outcome: Development of regulated and competitive pension fund industry catering to both mandatory and voluntary plans. Indicator: share of occupational schemes licensed by URBRA of licensed schemes. Target: 33%. Insufficient data are presented to permit assessment of achievement.
2. Outcome: An effective, well efficient regulator is in place. Indicator: URBRA staff appointed, internal procedures adopted, investment guidelines issued. There was no clear target. Achievement is mixed. Staffing regulations and guidelines were issued, but this alone does not guarantee an effective and efficient regulator. New positions were advertised only in January, 2014. The Chief Executive Officer and other key managerial staff were still to be appointed at closure.
3. Outcome: A more sustainable public sector pension scheme is in place. Indicator: (i) the Public Service Pension Fund becomes contributory; (ii) there would be no further accumulation of pension arrears. Neither indicator was achieved.
4. Outcome: mortgage market growth. Indicator: percent of mortgage debt in GDP. Target: 2% (from 1% in baseline). The measured indicator shows wide swings, but the target was not achieved.
5. Outcome: availability of long-term funds. Indicator: elasticity of yield curve beyond 120 months. Target: a more elastic curve. This was not achieved.
6. Outcomes: increased capacity to manage and coordinate transparent PPPs; and increased private, particularly domestic, investments in public infrastructure and related services. Indicator: Share of private financing in infrastructure investments. Target: 30%. (from baseline of 17%). The PPP legislation was delayed and passed by Parliament only in December 2014. The target was not achieved.

Objective 2: improving access to finance to financial services. Modest

Of the four target indicators, two -- on access to finance generally, and mobile money (access to financial services via mobile phones) -- were met. However, the extent to which either result can be attributed to the operation is questionable since they may stem from many factors (including overall economic growth and the sharp expansion in the use of mobile phones) rather than the measures supported by the DPO. Achievements with regard to specific target indicators were as follows:

7. Outcome: (i) increased access to financial services, (ii) increased variety of financial products, (iii) improved performance of soundness of Tier 4 institutions. Indicator: share of formally served population. The target: for outcome (i) 47% -- compared to a baseline of 28% -- was met, but there were no indicators or targets defined for the other two outcomes.
8. Outcome: enhanced efficiency of money transfers. Indicator: share of population engaged in money transfers. Target: 47% (baseline 35%). ICR notes that the outcome is achieved but the indicator is redefined as share *of adults* engaged in money transfers. Because the indicator definition changed, it is not possible to assess the achievement precisely.
9. Outcome: improved accessibility to payment services. No indicator was defined and achievement could not therefore be assessed.
10. Outcome: mobile money makes enhanced contribution to increased access to finance. Indicator: Number of mobile money service subscriptions rises to 6 million from the baseline of 2 million in 2011. The achievement of 5.7 million was close to the target. The number of mobile money *users*, a different but related indicator, is 9.4 million but no baseline was provided.

In sum, of the 10 outcome indicators, only one (no.7) was unambiguously met. One indicator (no.10) was almost achieved. Four (3-6) were not achieved. Data on four outcomes (1, 2, 8 and 9) do not permit an assessment of achievement.

The ICR notes some modest achievements regarding the early stages of pension reform, including partial staffing of the regulator, the adoption of a policy on PPP (albeit long delayed), the issuance of government bonds, and the use of Mobile Money. However, further progress was impeded by increasingly questionable Borrower ownership. Inter alia, a scandal in the Ministry of Public Service in June 2012 regarding misappropriation of significant sums diverted to "ghost pensioners" was followed by substantial staff changes. As the ICR (paragraph 45) notes, pension reform implementation was adversely affected by "serious limitations in institutional capacity, and [by] the realities of the legislative process." Triggers for the planned second DPO, which was to focus on pension reform, had still not been met two-and-a-half years after closure of the first operation, and the second operation was therefore cancelled. It is unclear if the modest achievements regarding term finance would not in fact have taken place in the absence of the DPO.

5. Efficiency (not applicable to DPLs):

6. Outcome:

The program's objectives were aligned with Government and Bank assistance strategies. However, objectives were over-ambitious. Relevance of design was rated Modest. Links between objectives, policy actions and the results framework were weak, which made the program difficult to implement, evaluate, and to establish attribution. Prior actions were spread over a wide agenda of pension reform, increasing term-finance, and improving access to finance. Achievement of both objectives--supporting development of the market to term finance and improving access to finance--was rated Modest. There was low attainment of targets in most cases where direct evidence was available. Under the first objective, out of six specific targets, there was no sufficient evidence of achievement of the first, the achievement of the second was mixed, and the remaining four target outcomes were not achieved. These latter included important goals related to pension arrears, the establishment of a framework for PPP in infrastructure, and the staffing of the regulatory agency. Under the second objective of improving access to finance, out of the four target outcomes, the first was partially achieved, the achievement of the following two could not be established, and the last was nearly achieved using a redefined indicator.

a. Outcome Rating: Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

There are significant political and governance-related risks, and moderate macroeconomic and PFM risks. Pension reforms are inherently highly political and difficult to implement, and typically require to be undertaken over a long of period of time. Major delays in implementation of the initial reforms supported under the first operation attest to significant political constraints. Governance-related risks materialized with the diversion of public funds to "ghost pensioners," which resulted in delays to the reform program. Other scandals (e.g., in 2012 with the diversion of the bilateral donor funds) suggest that these risks continue to threaten the implementation donor supported programs. Macroeconomic and PFM risks, because of strong monetary and fiscal institutions and good progress made with PFM reforms, are deemed moderate. At the same time, the risks of institutional weaknesses, government commitment, and implementation capacity, all of which could have been anticipated based on the lessons from the past PRSCs, remain.

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

a. Quality at entry:

On the positive side, there was an apparently solid policy dialogue and broad consultation that the team held with the Authorities and institutions involved in the proposed series. This dialogue probably helped the Authorities chart the elements of the reform agenda and provided them with advice on good and less good practices and on implementation. Collaboration with the IMF and the Bank's own analytical work on the financial sector underpinned the reform agenda. The DPO's objectives and design were closely coordinated with the IMF, the German Cooperation Agency (GIZ), and the UK's DFID. The second review of the IMF Policy Support Instrument (PSI, a non-financial IMF monitoring program) was presented to the IMF Executive Board before the end of June 2011, a month after the DPO loan approval. Also, the series was underpinned by considerable diagnostic work in the area of financial sector (including Financial Sector Assessment update in 2011) and pension reform.

However, there were significant shortcomings in Quality at Entry. As noted in section 3b above, design was overly ambitious. Preparation underestimated risks related to implementation capacity, which had been identified in the lessons from previous series, and which delayed implementation. The extent of Government commitment to important segments of the reform agenda was misjudged.

It is noteworthy that the series was developed outside the Joint Government and Donor Budget Support Framework. When the series was under preparation, disagreements had surfaced between the Authorities and the donors with the Authorities prioritizing infrastructure and most donors continuing to support social sectors (IEG-EC joint evaluation of the Uganda joint budget support, 2015). While the Bank has supported the government's infrastructure priorities with investment projects, thereby keeping its alignment with the government, these disagreements indicated risks regarding government ownership of the reform agenda of this series as well.
The Poverty and Social Impact Assessment (PSIA) (PD, p. 30) notes the likely positive impact on poverty of the financial sector reform and access to finance, but without providing detail on the channels of the impact or relevant studies or quantifications. It also notes that "the Public Sector Pension Fund envisaged for the second operation will likely have a negative distributional impact on civil servants." (Paragraph 100, PD). However, the PD does not provide any analysis or mitigating measures beyond the statement that it would simulate reform options in a subsequent policy note. In effect, a more complete PSIA appears to have been postponed after Board approval.

Two additional issues are noted on the quality of entry.

First, according to the PD, large, supplemental budgets were extended in the year before the DPO's approval, which were largely used for security expenditures rather than pro-poor social ones. The IMF Board delayed the Policy Support Instrument review in February 2011 because of concerns related to lack of fiscal discipline, large and poorly justified budget deficits, and a worsening composition of public expenditures. This raises the question as to whether the quality of macro-fiscal management was, at the time of Credit preparation, consistent with the objectives of deepening the financial sector. The macroeconomic links were not, however, addressed at the design stage.

The second issue in the design is that financial deepening is a long-term process, which presupposes a continuous maintenance of macroeconomic stability, improvements of institutions, and private sector confidence in institutions and financial contracts. It is also demand driven and difficult to speed up over the short term with limited process-type measures. It was therefore not likely that the intended degree of financial deepening would be achieved by a single DPO.

As the ICR notes, a narrower DPO series with more realistic objectives, perhaps focusing on access to finance, would have been more relevant to country circumstances.

Finally, the PD highlights risks related to the political environment, economic management, public financial management, procurement fraud, and corruption. The pertinence of these risks was demonstrated by the corruption case directly affecting the pension reform agenda. However, two risks that were not mentioned -- limited institutional capacity and inherent difficulties with politically difficult legislative reforms – were, in fact, to materialize, and adversely affected both outcomes and the pace of implementation.

Quality-at-Entry Rating: Moderately Unsatisfactory

b. Quality of supervision:

Following Board approval, the intensity of the policy dialogue appears to have weakened (the ICR notes in paragraph 92 that between effectiveness and November 2012, there is no evidence of an Aide-Memoire in the system). Following a change in task team leadership, however, the intensity of missions and the number of technical experts visiting the field to assess the situation and prepare the ground for the next operation, increased. (ICR, paragraph 91). The Bank proactively addressed delays in the key reforms, especially in the pension reform area as well as financial sector reform. The decision to cancel the second DPO in the series was appropriate in view of delays, questions about the government's ownership, and a mismatch between the overambitious reform agenda and implementation capacity.

Quality of Supervision Rating: Moderately Satisfactory

Overall Bank Performance Rating: Moderately Unsatisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Government ownership and commitment has not been consistent with the overly ambitious reform agenda. Separating the series from the joint budget support framework may have been a pragmatic way of focusing the technical dialogue between the Bank and the Authorities alone. But it also signaled a potential lack of sufficient ownership. The broader context for government's performance is important here. The years 2011-12 was the period of a rapid decline of the joint donor budget support, both in terms of quality of the dialogue and the volume of budget support funds, including from the Bank. The 2012 scandal with the diversion of bilateral donor funds ended temporarily all donor budget support. This was also a period of increasing awareness of the potential of future oil revenues. Therefore, during those years, the Government's attention and focus on traditional donors' policy agenda—and its ownership of broader reforms--weakened. In this context, the series pursued an overly ambitious financial sector reform agenda in the context of a broader weakening of engagement between Government and donors.

Regarding the reforms supported under the series, pension-related fraud signaled inadequate commitment and ownership of the reforms supported under this key agenda in the first pillar. Legislative delays also suggested lack of sufficient political support and ownership of reforms. Delays in the second phase of reforms that was to be supported by the second operation reflected "realities of the political process and the limits of government commitment." (ICR, paragraph 96). As the ICR notes in the same paragraph, reforms on housing finance, microfinance, and payment system, government action never picked up momentum.

Government Performance Rating: Moderately Unsatisfactory

b. Implementing Agency Performance:

N/A

Implementing Agency Performance Rating: Not Applicable

Overall Borrower Performance Rating : Moderately Unsatisfactory

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

a. M&E Design:

The program's 13 outcome indicators are mostly quantitative and well defined, and feature baseline and target dates. The Ministry of Finance, Planning and Economic Development (MoFPED) had the overall responsibility for M&E. Financial sector reform agenda was monitored using the government's monitoring framework under Uganda's National Integrated Monitoring and Evaluation Strategy (NIMES). Bank of Uganda was involved also with its annual reports of the progress of the implementation of the Financial Markets Development Plan. The M&E framework was consistent with the government's National Development Plan and Joint Assessment Framework (JAF) under the joint donor budget support.

Indicators were defined, in most cases with clear quantitative baselines and targets. Target dates were selected for 2014, two years after closing, reflecting the medium-term nature of reforms and the fact that the original design was for a two-loan series. However, the link between indicators and prior actions and back to objectives was weak (e.g., indicators 1, 2, 8 and 9, section 4 above). Also, in some cases, indicators or clear targets were missing or could not be related to indicators and outcomes, making unambiguous assessment of achievement difficult.

b. M&E Implementation:

The Bank team monitored implementation through a continuing dialogue with the MoFPED. Also, monitoring of progress benefited from the dialogue under the Second Competitiveness Project and the other donors under the Joint Budget Support framework.

c. M&E Utilization:

M&E was used to inform MoFPED, Bank of Uganda and the Bank teams working on the series as well as those working on the Second Competitiveness Project.

M&E Quality Rating: Modest

11. Other Issues

a. Safeguards:

The series did not trigger any safeguards policies.

b. Fiduciary Compliance:

Fiduciary risk, in the government accounts, Bank of Uganda, PFM, and legislation were noted appropriately.

c. Unintended Impacts (positive or negative):

N/A

d. Other:

N/A

12. Ratings:	ICR	IEG Review	Reason for Disagreement/Comments
Outcome:	Moderately Unsatisfactory	Moderately Unsatisfactory	
Risk to Development Outcome:	Significant	Significant	

Bank Performance:	Moderately Satisfactory	Moderately Unsatisfactory	There were significant shortcomings in Quality at Entry, including overambitious design that did not take into account limited institutional capacity and related risks.
Borrower Performance:	Moderately Unsatisfactory	Moderately Unsatisfactory	
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 draws the following lessons from the preparation and implementation of this operation:

Implementation of the reform agenda is likely to be adversely affected by objectives that are overambitious in relation to implementation capacity, and by a time horizon too short to address adequately the identified policy issues.

The quality of design of DPOs matters for implementation and outcomes. Good design of DPOs needs to clearly link objectives to select, relevant policy reforms and indicators in a clear chain of attribution. Each outcome would have a corresponding indicator and unambiguously defined relevant target with clear baseline that can easily be evaluated ex post.

Ownership of reforms may be limited or change quickly during the preparation of a DPO, especially in the context of complex, politically difficult reforms (e.g., pension reform). The extent of ownership requires constant monitoring not only during preparation, but during implementation as well.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR is well written. It covers the key elements of the self-evaluation in sufficient detail. It is also candid in the assessment of efficacy. The ICR could have been more candid in assessing Bank performance in view of the substantial institutional capacity and ownership weaknesses.

a.Quality of ICR Rating: Satisfactory