Poverty Reduction Support Credits in Uganda

Results of a Stocktaking Study

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The World Bank
Africa Region
Table of Contents:

Background ..................................................................................................................... 3
A Brief Overview of PRSCs ........................................................................................... 3
The Approach to Stocktaking ......................................................................................... 6
PRSC Performance Measured Against PRSC Objectives .............................................. 6
Broader Concerns .......................................................................................................... 20
Conclusions and Recommendations ............................................................................... 33

Annex 1 Partnership Principles between GoU and its Development Partners ............... 42
Annex 2. Calendar of Major Processes and Missions .................................................. 49
Annex 3 Education Sector Undertakings ....................................................................... 50

Tables
Table 1 Monitoring Indicators in Education ..................................................................... 7
Table 2 Monitoring Indicators in Health .......................................................................... 8
Table 3 Comparison of PEAP/PRSP and MDG Targets .................................................... 11
Table 4 Foreign Inflows and External Debt as a Share of GDP ........................................ 13
Table 5 Budget Support, Program vs. Performance, 1998/99 – 2002/03 (US$ millions) ... 14
Table 6 Budget Support Programs vs. Outturns, 1998/99 – 2002/03 .............................. 14
Table 7 Sectoral Shares of Expenditures, as % of Budget, 1998/99 – 2002/03 ............... 15
Table 8 PAF as a % of Budget ......................................................................................... 15
Table 9 Headcount of Poverty in Uganda, 1992-2002 .................................................... 21

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Background

1. Uganda pioneered the use of budget support operations known as Poverty Reduction Support Credits (PRSCs) in the World Bank. The first PRSC for Uganda was approved by the World Bank Board in May 2001, the second (PRSC2) in July 2002, and the third (PRSC3) in September 2003. PRSC4 is now under preparation and is scheduled for Board presentation in June/July 2004.

2. A number of other countries have joined Uganda in the use of this new instrument to support the implementation of their Poverty Reduction Strategies. The teams involved in the design of PRSCs in various countries have been sharing their experiences on an informal basis, and the Quality Assurance Group in the World Bank has carried out a quality-at-entry assessment of several of these operations, including an assessment of the second PRSC for Uganda. However, the overall Uganda experience with the PRSCs has not been examined, and it was felt that a stocktaking exercise of the Uganda experience with its first three PRSCs would be useful for several reasons: (i) to reflect on the impact these PRSCs have had in terms of Uganda’s poverty reduction program; (ii) to learn lessons to guide approaches to future possible PRSC operations; and (iii) to provide insights for the larger issue (being studied in the World Bank and among donors) of how PRSCs are operating as an instrument, modality, and process.

3. Specifically, therefore, the objective of the exercise is to study what has worked, what has not worked, and what could be improved in the Uganda PRSC process in the future. The exercise aims to strengthen the consensus among the GoU and donors on the way forward in the area of budget support. It should also help inform the internal debate in the multilateral and bilateral donor community on the effectiveness of budget support operations and how they complement other available aid instruments.

A Brief Overview of PRSCs

4. PRSCs were designed to channel programmatic lending to support policy and institutional reforms in support of a country’s Poverty Reduction Strategy, usually presented in the form of a Poverty Reduction Strategy Paper (PRSP). In the case of Uganda the PRSCs were designed as a series of annual credits supporting a three year rolling program of reforms, based on Uganda’s version of a PRSC, which is known as the Poverty Eradication Action Plan (PEAP). The World Bank credits are in the form of untied budget support, financing all government activities, in the same way as domestic tax revenues. The PRSCs have been significantly co-financed by other donors in the form
of grants which, like the World Bank credits (although PRSC 3 was a grant on an exceptional basis), take the form of untied budget support.

5. The specific stated objectives of the Uganda PRSCs are to:

- Improve public service delivery
- Strengthen government processes and systems
- Replace a number of concurrent donor systems with a single agreed system
- Improve predictability of resource flows; and
- Reduce transaction costs of aid delivery, as compared to transferring a similar level of resources through a series of projects

6. Implicit objectives that emerged along the way include:

- Improved Government leadership and management of the reform program intended to eradicate poverty
- Better coordination and harmonization of donor activities and practices, and
- Improved coordination between Government ministries and agencies through the integration of specific sector plans into the overall poverty reduction program

7. Each of the three PRSCs supported specific goals and objectives of the PEAP, which is built around four pillars:

- Developing a framework for economic growth and transformation
- Ensuring good governance and security
- Increasing the ability of the poor to raise incomes
- Directly increasing the quality of life of the poor

8. The reform program supported by each of the PRSCs is laid out in a log-frame type Policy Matrix that sets out the objectives to be reached in each area, actions to be taken, and markers intended to make possible an evaluation of whether the actions were successful. Among these, a subset of about 10-12 is chosen as particularly critical, and form the Prior Actions which have to be taken by the Government before the next PRSC goes to the Board of the World Bank for approval. Since the PRSCs have so far been annual and the timing is tight, non-fulfillment of Prior Actions (typically required by April of the budget year ending in June) can affect the flow of resources to the budget in the next fiscal year.

9. The first PRSC selected the following aspects of the PEAP, as priorities for Government action:

- PEAP Pillar 4, directly increasing the quality of life of the poor, was prioritized by a focus on improving the delivery of education, health, water and sanitation services.
• PEAP Pillar 1, developing a framework for economic growth and transformation; and PEAP Pillar 2, ensuring good governance and security, were selected for priority actions in two areas:
  o Improving public expenditure management, and monitoring and evaluation
  o Improving governance (public service management, public procurement, financial management, legal and judicial reform and civil society participation).

10. The focus of the second PRSC expanded into some aspects of Uganda’s rural development reform program, by prioritizing actions to improve:

• Agricultural extension
• Agricultural research and development
• Rural finance
• Land tenure
• Natural resource management, and
• Rural roads

11. These actions were aimed at supporting PEAP Pillar 3 (increasing the ability of the poor to raise incomes), given the fact that the bulk of Ugandans living in poverty depend on agricultural production for their livelihood. One view of this component is that it too supported service delivery, but the services are in the nature of inputs into income generation activities in the rural economy.

12. PRSC-3 focused on actions to deepen reforms in most of the sectors covered in the first two PRSCs, and incorporated additional financial sector issues such as pensions.

13. 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, such as is already nearly the case in terms of the support given by the World Bank and many other donors to the education and health sectors
• The Government firmly leads and manages all aspects of the reform program across all sectors, including prioritization of objectives, program design, implementation and monitoring, and impact evaluation; and
• Donors play the role of technical advisors and facilitators
The Approach to Stocktaking

14. This PRSC stocktaking exercise pursues two lines of inquiry:

- It examines the performance of the Uganda PRSCs 1-3 with respect to their PEAP-related priorities, as well as the other objectives described in paragraphs 5 and 6 above; and
- It examines the way in which the Uganda PRSC experience can provide insights for the future application of the PRSC instrument both in Uganda and elsewhere.

15. The findings are based on:

- A stocktaking workshop with the Government and donors held on June 20, 2003 in Uganda;
- Interviews with Ugandan Government officials;
- Interviews with donor representatives involved in Uganda PRSCs;
- Interviews with members of World Bank’s Uganda PRSC teams;
- Interviews with other relevant Bank staff;
- Uganda PRSC 1-3 reports and other relevant documents and data; and
- Prior assessments and evaluations of general budget support, including documents such as the study on the evaluability of general budget support carried out for DFID (see OPM&ODI, 2002).

16. The stocktaking workshop of June 20, 2003 was attended by about 80 people from the Government and donor communities. There was no participation by the NGOs or the private sector. However, interviews were subsequently carried out with some thirty other individuals, some of whom represent Ugandan NGOs. These exchanges have provided a way of assessing the problems encountered in the PRSC process from a number of different, and in many cases, independent perspectives, and the conclusions drawn in this paper have relied heavily on convergence of views.

PRSC Performance Measured Against PRSC Objectives

17. **Service Delivery.** The overriding objective of the PRSCs 1-3 has been the improvement by the Government of those basic services that are associated with the ultimate goal (outcome) of reducing poverty in all its dimensions. The objective of delivering more and better services has been pursued through a number of channels – by improving the efficiency and equity of overall resource allocation; by strengthening systems and processes that would lead to better across-the-board governance and effectiveness of the public service; and by improving the direct delivery of services such as education, health, water, sanitation, and (later in the PRSC cycle), advisory services in agriculture, access to land and rural roads.
18. **Education.** A time-series examination of quantitative indicators in education shows improvements in a number of aspects. Primary school enrollments showed an increase from 6.6 million pupils in 2000 to 7.6 million by 2003, and secondary school enrollment increased from 519 million students in 2000 to nearly 750 thousand in 2003. The gender parity gap is almost closed with 49.4% of pupils at the primary school level being girls. The poorest 20% of Ugandan households has enrolment rates that are almost as high as those for the richest 20%. Enrolment of children with special needs has increased tenfold. Some of the indicators of input quality tracked in the PRSC Quantitative Monitoring Indicators matrix also showed improvements (Table 1) – pupil/teacher ratio dropped from 65:1 in 2000 to 55:1 in 2003, pupil to classroom ratio declined from 106:1 to 95:1, there were fewer pupils per textbook and the books reflected a change in syllabus. Recent household survey indicates that the percentage of household heads with no formal education decreased from 24.7% in 1997 to 17.8% in 2003.

19. Survival rates for P4 level have risen from 44% in 2000 to 66% in 2003, despite the large increase in primary school enrolments. There are concerns that intra-sectoral allocations may be shortchanging secondary education, within an overall envelope for education that has shown a very strong increase over time. Currently secondary schools can absorb only 50% of the primary school leavers (WB 2003c, Ch. 4)

Table 1 Monitoring Indicators in Education

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Base Year</th>
<th>1997</th>
<th>2000</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Enrolment</strong></td>
<td></td>
<td>5.3 m</td>
<td>6.6 m</td>
<td>7.3 m</td>
<td>7.6 m</td>
</tr>
<tr>
<td>Percentage o/w girls</td>
<td></td>
<td>46.5</td>
<td>49.0</td>
<td>49.2</td>
<td>49.4</td>
</tr>
<tr>
<td>Secondary Enrolment</td>
<td></td>
<td>445 t</td>
<td>519 t</td>
<td>656 t</td>
<td>749 t</td>
</tr>
<tr>
<td>Percentage o/w girls</td>
<td></td>
<td>n/a</td>
<td>44.0</td>
<td>45.2</td>
<td>42.9</td>
</tr>
<tr>
<td>Pupil/teacher ratio</td>
<td></td>
<td>100:1</td>
<td>65:1</td>
<td>54:1</td>
<td>55:1</td>
</tr>
<tr>
<td>Pupil/classroom ratio</td>
<td></td>
<td>124:1</td>
<td>106:1</td>
<td>94:1</td>
<td>95:1</td>
</tr>
<tr>
<td>Pupil/book ratio</td>
<td></td>
<td>n/a</td>
<td>6:1</td>
<td>n/a</td>
<td>3:1 *</td>
</tr>
<tr>
<td>Survival rate to P4 %</td>
<td></td>
<td>44.5</td>
<td>66</td>
<td>66.5</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
* P3 & P4 grades only and with a new syllabus

20. The education sector has a well established record of carrying out analyses of various aspects of the educational system such as expenditure reviews, and tracking and value-for-money studies, which have been improving the analytical base for addressing the problems. Tracking studies, for example, have established that currently 90% of the funds allocated in the budget are actually reaching the schools, up from 20% in 1995. In addition, the government has been working on developing new strategies for secondary
and tertiary education, and the National Examinations Board has put in place a system for National Assessment of Progress in Education (NAPE) to measure learning outcomes. Outcome indicators are just being introduced and PRSC 4 is expected to track indicators such as “% of pupils reaching defined levels of literacy and numeracy”. To attract teachers to remote areas, schools in those areas are allowed to use 15% of their budget for housing and a 20% monthly supplement to salaries as a special incentive.

21. Health. There has been good progress in a number of health areas (Table 2). OPD utilization (including the private not-for-profits) has increased from 0.40 visits per capita in 1999/00 to 0.68 in 2002/03. DPT3 coverage went up from 41% to 65%. Deliveries at health facilities declined from 25% to 21%, although there was a turn-around in the last year from the low of 19% reached in 2001/02. Approved posts filled by trained health workers increased from 33% to 43%, with still well over a half of the posts (and especially in the remote areas) not covered by trained personnel. HIV sero-prevalence continued to stagnate in the 6-6.5% range, after having declined in the 1990s from almost 20% in 1991. Outcome indicators such as infant and maternal mortality, and total fertility, however, either stagnated or deteriorated. Incidence of malaria, the leading cause

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Base Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999/00</td>
</tr>
<tr>
<td>OPD use (G + PNFP) *</td>
<td>0.40</td>
</tr>
<tr>
<td>DPT 3 coverage **</td>
<td>41%</td>
</tr>
<tr>
<td>Deliveries in health facilities (G + PNFP)</td>
<td>25%</td>
</tr>
<tr>
<td>Approved posts filled by health workers</td>
<td>33%</td>
</tr>
<tr>
<td>Urban/rural specific HIV prevalence</td>
<td>7%</td>
</tr>
<tr>
<td>Total fertility rate</td>
<td></td>
</tr>
</tbody>
</table>

Source World Bank (2003 a) & (2003 c)

Note
* OPD : Out-Patient Department; G- Govt; PNFP : Private not for profit
** DPT3 : Diphtheria, Pertussis, Tuberculosis vaccine
of morbidity and mortality, with a major impact on agricultural productivity, also
deteriorated (MOFPED 2003c and MOH, 2001).

22. In the area of infant and maternal mortality, a Task Force on Infant and Maternal
Mortality has been constituted under the leadership of MOFPED in 2001 since this was
viewed both as a very serious as well as heavily inter-sectoral issue that could not be
solved by the health sector alone. The report of the Task Force has been acclaimed by
the development partners as providing a solid basis for the way forward.

23. Funding for the health sector has at least tripled over the past 4 years. Within the
overall budget envelope, there has also been a sharp realignment toward primary health
care, from only 5% of overall health spending going to primary health care in 1997/98 to
42% in 2003 (Table 4.6, WB 2003c). With such a rapid expansion, there is concern that
operational efficiency may be a problem. There is some evidence that unit labor costs are
higher in government than in for-profit and non-profit facilities (Reinikka et.al., 2002),
but additional refinements in analysis and comparators is required before clear
conclusions can be drawn. As in the case of education, government documents show a
more systematic tracking of inputs, processes and outputs, which will allow a clearer
analysis in future of outcomes and their likely causes.

24. Water and Sanitation. In terms of quantitative indicators, the water and sanitation
sector shows rapid expansion in coverage. For example, in PRSC 3, all targets for new
water and sewerage connections were substantially exceeded (10 500 new water
connections vs. 7000 targeted, of which 3000 for poor households; and 318 new
sewerage connections vs. 100 targeted). Internal cash generation devoted to capital
investments also exceeded its targets. However, despite these successes, there remain
questions about the efficiency of resource use. The budget for water and sanitation had
tripled over the last three years, but it is doubtful that this increase has been transformed
into higher outputs on a pro-rata basis (see WB 2003b, Ch. 4). On the other hand, some
of these resources were spent on capacity building and development of water resource
management skills at the lowest level. With time, it is hoped that there will be a pay-off
in terms of the efficiency and effectiveness of the overall system. The resources have
been skewed towards urban areas and small towns (although small refers to every town
over 5000 people), so that only 15% of the population have absorbed over 50% of these
resources in 2002 (Table 4.4, WB 2003c); this at a time when 85% of urban areas already
have access to safe water, compared to only 55% in rural areas. In addition, rural
inhabitants are burdened with similar or worse disparities in sanitation facilities
(latrines/flush toilets); and in such areas, poor people, for whom time is a vital factor in
generating income, have to spend significantly more time compared to urban dwellers
without water connections, to fetch water from available sources.

25. The Ugandan water and sanitation agencies are developing their capacity to track
expenditures, and carry out value for money analyses. The problem appears to be that the
planning goals for the sector are still too centralized without adequate influence from
rural areas and more marginalized regions of the country, although resources are being
invested at the lowest levels as noted in the previous paragraph. Unless the poor, who
live overwhelmingly in the countryside, are brought into the planning process and
empowered to influence the provision of water and sanitation services, their needs will not be met. The result will be continued deleterious impact on their health, especially infant and child mortality, and will inevitably affect incomes.

26. Agriculture. It is probably too early to say much about outcomes in the delivery of services to agriculture, although some positive opinions were expressed about progress in agricultural advisory services and in the use of non-sectoral conditional grants at the local level. Issues of land tenure have not been getting sufficient attention until recently. Quantitative Monitoring indicators are just being introduced for this sector, the main ones being the number of agricultural service providers and their geographical coverage, and the percentage of previous year’s land disputes resolved and the number of parishes in which land titles/certificates of ownership (including customary) have been issued.

27. The ground that still needs to be covered over the coming years can be seen from the MDG (Millennium Development Goals) and closely associated PEAP targets presented in Table 3. The MDGs are internationally agreed targets that are expected to be reached by year 2015. Some of these targets are set relative to the situation in the country in around 1990 (e.g. headcount of poverty was to be cut in half, infant mortality was to be cut by two-thirds), others are absolute such as universal primary education or gender balance. It is clear that many of the goals are within reach if the progress over the last 5-10 years is an indication of future trends. To reach others, such as infant and maternal mortality, the P7 net primary enrollment rate, and the poverty headcount rate, will require a rethinking of the strategy.

28. In sum, the amount and coverage of most of the targeted services in the social sector has improved and there has been a tilt towards the poorest sections of the population in a number of aspects of service delivery (Fox, 2004 and Mpuga and Canagarajah, 2004). Resources have clearly been reallocated toward the areas targeted by PEAP II and supported by the PRSCs, and success is evident in most areas at the input level (resources allocated, staff hired, and various ratios of service delivery). Most documents now specify targets to be achieved, relevant people are more aware of input vs. output targets, and the depth of analysis and knowledge of the various sectors is increasing. More work is needed to improve the efficiency of resource use as well as the equity of resource allocation to the various regions and poor communities. Perhaps the biggest challenge is in transaction-intensive areas that, in addition, require close coordination of various sectors - e.g. in reducing the disturbingly high rates of infant and maternal mortality that on present trends are not likely to be brought within a reasonable range of the MDG targets for 2015 (see Table 3)
### Table 3 Comparison of PEAP/PRSP and MDG Targets

<table>
<thead>
<tr>
<th>Indicator</th>
<th>MDG Target</th>
<th>PEAP/PRSP Target</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MDG Goal: Halve the headcount poverty by 2015</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>MDG Goal: Achieve universal completion of full course of primary education by 2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net enrollment</td>
<td>100% (2015)</td>
<td>100% of the poorest and richest quintile (2015)</td>
<td>83% poorest quintile (2002) and 90% richest quintile (2002)</td>
</tr>
<tr>
<td><strong>MDG Goal: Gender equality-elimination of gender disparity in primary and secondary education by 2005</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Education:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of girls in total enrollment</td>
<td>50% (2005)</td>
<td>50%</td>
<td>49% (2002)</td>
</tr>
<tr>
<td>Share of boys in total enrollment</td>
<td>50% (2005)</td>
<td>50%</td>
<td>51% (2002)</td>
</tr>
<tr>
<td>Secondary Education:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of girls in total enrollment</td>
<td>50% (2005)</td>
<td>NA</td>
<td>44% (2002)</td>
</tr>
<tr>
<td>Share of boys in total enrollment</td>
<td>50% (2005)</td>
<td>NA</td>
<td>56% (2002)</td>
</tr>
<tr>
<td><strong>MDG Goal: Reduce infant mortality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Children less than 1 year-old that received DPT3 vaccination</td>
<td>NA</td>
<td>80% (2005)</td>
<td>63% (2001/02)</td>
</tr>
<tr>
<td><strong>MDG Goal: Improve maternal health</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MDG Goal: Combat HIV/AIDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIV/AIDS prevalence rate</td>
<td>Halted and reversed by 2015</td>
<td>5% (2005)</td>
<td>6.5% (2001/02)</td>
</tr>
<tr>
<td>Rate peaked in 1992/93, and thereafter declined</td>
<td></td>
<td></td>
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<tr>
<td><strong>MDG Goal: Halve the proportion of people without sustainable access to safe drinking water by 2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to safe drinking water (urban)</td>
<td>62% (2015)</td>
<td>100% (2015)</td>
<td>55% (2002/03)</td>
</tr>
<tr>
<td><strong>MDG Goal: Integrate the principles of sustainable development into policies and program by 2015</strong></td>
<td></td>
<td></td>
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<tr>
<td>Work ongoing on environmental mainstreaming</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Sources: WB (2003a), MOFPED (2003a), and MOFPED (2003d)
29. **Strengthening of Government Processes and Systems.** 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. Therefore, stocktaking in this area is somewhat tentative. Progress has been made in strengthening and updating the legal framework and regulatory environment for public financial management. Dramatic improvements in the accounting and auditing capacity of the public sector mean that fiduciary risks have been reduced. The Government has procured an integrated financial management system, but the roll-out and further development of this system pose a significant challenge. The critical issue of the operational independence of the Auditor General remains unresolved. Monitoring and evaluation functions need major streamlining to reduce overlaps, and to obtain the information that is needed to make judgments and take decisions (Hauge, 2003). Coordination across government services is generally regarded as patchy, which makes the planning and monitoring of multi-sectoral initiatives problematic.

30. There is evidence that several branches of the public administration establishment exceed their budgets without being able to demonstrate an obvious corresponding increase in effectiveness. Possible areas that have been identified for streamlining include expenditures by commissions, proliferation of districts, costs of operating the political system, costs of foreign missions, duplications within government and the process by which the public administration sector is able to more easily obtain supplementary funding during the budget year than other sectors. It is unlikely that the identified areas of public administration that have increased their expenditures have had a poverty reducing impact, except in special instances. 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.

31. Civil society participation in governance exists but is relatively weak and patchy. While civic groups did participate in the Participatory Poverty Assessments and in the discussions during the preparation of the PEAPs, there are few awareness-raising and advocacy NGOs able to enforce accountability of government officials at the local level. There does seem to be a genuine commitment by the Government to strengthen civic involvement, but it is not immediately clear what needs to be done to see it materialize. It
is important that the World Bank and donors involved in the PRSC, and other poverty reduction dialogue and actions, help the Government encourage NGO and community involvement, and take care to ensure that these voices are captured in the strategies and priorities that emerge.

32. **Improving Predictability of Resource Flows.** Most of the participating donors expressed the view that the predictability of donor-provided resource flows has improved during the PRSC program. Aid, as a percentage of (a growing) GDP, shows no major volatility, although there was a step-up in foreign aid of almost 5 percentage points of GDP from 1997/98 to 2001/02. This increase was the result of the development of the first PEAP (1997/98), introduction of the Poverty Action Fund (PAF, in 1998/99) in support of the PEAP, and the resulting qualification of Uganda for HIPC in 1998/99 with the subsequent increase in budget support. All of the increase in aid came from budget support rather than from projects. And about 60% of the increase came through grants rather than concessional loans (see Table 4).

### Table 4 Foreign Inflows and External Debt as a Share of GDP

<table>
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<tbody>
<tr>
<td><strong>Total Inflows</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>7.7</td>
<td>6.8</td>
<td>6.6</td>
<td>4.7</td>
<td>4.4</td>
<td>4.0</td>
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<td>Grants</td>
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<td>4.6</td>
<td>4.9</td>
<td>5.8</td>
<td>5.4</td>
<td>6.3</td>
<td>8.9</td>
<td>8.6</td>
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<tr>
<td>o/w HIPC</td>
<td>0.8</td>
<td>1.0</td>
<td>1.7</td>
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<tr>
<td><strong>Private Inflows</strong></td>
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<td>3.0</td>
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<tr>
<td>Total</td>
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<td>58.8</td>
<td>58.7</td>
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<td>58.5</td>
<td>55.1</td>
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<tr>
<td>Multilateral</td>
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<td>37.5</td>
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<td>47.4</td>
<td>47.3</td>
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<tr>
<td>Bilateral</td>
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<td>12.2</td>
<td>12.5</td>
<td>11.0</td>
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<td>Commercial Banks/Non-Banks</td>
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<td>2.8</td>
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<td>2.1</td>
<td>1.3</td>
<td>1.4</td>
<td>0.7</td>
<td>0.5</td>
</tr>
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<td><strong>National Accounts (% of GDP at Market Prices)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Gross domestic investment</td>
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<td>15.7</td>
<td>17.1</td>
<td>17.0</td>
<td>15.7</td>
<td>19.2</td>
<td>19.5</td>
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<tr>
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<td>8.5</td>
<td>9.2</td>
<td>10.2</td>
<td>11.4</td>
<td>11.7</td>
<td>11.0</td>
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<td>13.1</td>
<td>13.4</td>
<td>15.4</td>
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<td>Public investment</td>
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<td>5.4</td>
<td>5.7</td>
<td>5.4</td>
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<td>5.5</td>
<td>6.4</td>
<td>6.4</td>
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<tr>
<td>Consumption</td>
<td>98.9</td>
<td>95.1</td>
<td>93.0</td>
<td>92.2</td>
<td>92.9</td>
<td>94.6</td>
<td>92.6</td>
<td>92.1</td>
<td>92.3</td>
<td>93.7</td>
</tr>
</tbody>
</table>

**Sources:** WB (2002b)

33. Actual percentage utilization of aid provided in support of the budget has been improving steadily with amounts of aid of this type increasing since 1998/99 and the ratio of actual disbursements to the amounts initially programmed increasing steadily from 39.6% in 1998/99 to 85.6% in 2002/03 (Table 5). There were some within year variations, such as the cut-back at the end of calendar 2002 of a total of about $30 million expected bilateral aid which did not materialize at that point because of the donors’ concerns with the sudden surge in military expenditures in the first half of FY2002/03. The Government handled this by adjusting Uganda’s ample foreign exchange reserves, typically running at 6 months’ worth of imports.
Table 5 Budget Support, Program vs. Performance, 1998/99 – 2002/03 (US$ millions)

<table>
<thead>
<tr>
<th></th>
<th>Program</th>
<th>Outturn</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998/99</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>o/w HIPC</td>
<td>297.5</td>
<td>117.9</td>
<td>39.6%</td>
</tr>
<tr>
<td>o/w non-HIPC</td>
<td>37.2</td>
<td>45.0</td>
<td></td>
</tr>
<tr>
<td>1999/2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>o/w HIPC</td>
<td>364.0</td>
<td>204.6</td>
<td>56.2%</td>
</tr>
<tr>
<td>o/w non-HIPC</td>
<td>38.3</td>
<td>56.2</td>
<td></td>
</tr>
<tr>
<td>2000/01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>o/w HIPC</td>
<td>421.8</td>
<td>293.3</td>
<td>69.5%</td>
</tr>
<tr>
<td>o/w non-HIPC</td>
<td>86.0</td>
<td>74.4</td>
<td></td>
</tr>
<tr>
<td>2001/02</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>o/w HIPC</td>
<td>644.5</td>
<td>426.8</td>
<td>66.2%</td>
</tr>
<tr>
<td>o/w non-HIPC</td>
<td>77.6</td>
<td>80.4</td>
<td></td>
</tr>
<tr>
<td>2002/02</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>o/w HIPC</td>
<td>506.8</td>
<td>433.7</td>
<td>85.6%</td>
</tr>
</tbody>
</table>

Source: MOFPED

34. Deviations in overall budget outturns vs. allocations diminished over time, with the discrepancy index dropping from 9.8% in 1998/99 to 5.5% in 2002/03 (Table 6). And broad sector allocations and outturns over the same period showed relatively stable trends (Table 7).

Table 6 Budget Support Programs vs. Outturns, 1998/99 – 2002/03

<table>
<thead>
<tr>
<th></th>
<th>1998/99</th>
<th>1999/00</th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discrepancy Index</td>
<td>9.8</td>
<td>4.9</td>
<td>7.6</td>
<td>5.8</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Note: Discrepancy Index is defined as the weighted average of absolute percentage deviation between budgeted amounts and outturns.
Source: WB (2003c)

35. However, this apparently stable overall performance hides some within-year budget fluctuations. Allocations to the Poverty Action Funds increased from 17% of the budget in 1997/98 to 37% in 2002/03 (Table 8). Releases under the PAF closely tracked budgeted amounts. Protecting PAF expenditures and sticking to the overall budget ceilings as much as possible, created a situation where any increases in items such as defense expenditures, would have to be reflected in cuts in non-PAF expenditures. This is in fact what happened in the first half of 2002/03, and led to some donors to withhold funds. With defense expenditures running 18% above programmed levels at mid-year and public administration expenditures exceeding their target by 3%, the non-protected areas of the budget were cut by 23% (WB 2003b, Ch 3). Higher than budgeted outturns in security and interest payments were reflected in lower than budgeted outturns in non-PAF protected areas of education and health. The process of reallocating funds within a budget year through supplementary requests by certain sectors (in this case defense and public administration) should diminish with the passage of the Public Finance and Accountability Act (2003). This Act requires parliamentary approval before the release of
any supplementary funds, forcing a parliamentary debate on why the overruns happen and how they should impact other sectors.

Table 7 Sectoral Shares of Expenditures, as % of Budget, 1998/99 – 2002/03

<table>
<thead>
<tr>
<th></th>
<th>1998/99</th>
<th>1999/00</th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
</tr>
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<tr>
<td></td>
<td>Approved</td>
<td>Outturn</td>
<td>Approved</td>
<td>Outturn</td>
<td>Approved</td>
</tr>
<tr>
<td>Security</td>
<td>19.9</td>
<td>15.4</td>
<td>13.9</td>
<td>12.6</td>
<td>12.9</td>
</tr>
<tr>
<td>Roads &amp; Works</td>
<td>6.2</td>
<td>8.1</td>
<td>8.5</td>
<td>8.3</td>
<td>7.4</td>
</tr>
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<td>Agriculture</td>
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<td>1.5</td>
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<td>2.3</td>
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<tr>
<td>Education</td>
<td>26.9</td>
<td>26.3</td>
<td>24.9</td>
<td>24.1</td>
<td>24.9</td>
</tr>
<tr>
<td>Health</td>
<td>6.5</td>
<td>6.5</td>
<td>7.4</td>
<td>8.6</td>
<td>9.6</td>
</tr>
<tr>
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<td>1.5</td>
<td>2.4</td>
<td>2.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Law &amp; Order</td>
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<td>7.3</td>
<td>6.5</td>
<td>6.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Accountability</td>
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<td>0.8</td>
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<td>1.1</td>
<td>1.3</td>
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<tr>
<td>EF &amp; SS *</td>
<td>2.7</td>
<td>4.6</td>
<td>5.0</td>
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<td>7.4</td>
</tr>
<tr>
<td>Public Order</td>
<td>20.7</td>
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<td>20.2</td>
<td>19.3</td>
<td>17.8</td>
</tr>
<tr>
<td>Interest payments</td>
<td>7.1</td>
<td>7.7</td>
<td>8.5</td>
<td>8.1</td>
<td>7.1</td>
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<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Economic functions and social sectors

Sources: WB (2002b, Table 2.4) and WB (2003c, Table 2.6)

Table 8 PAF as a % of Budget

<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>pre-PAF</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

% of budget allocations on PAF

| PAF              | 17      | 23      | 25      | 30      | 37      | 37      |

% of sector allocations on PAF

| Roads            | 17      | 26      | 23      | 22      | 25      | 29      |
| Education        | 59      | 69      | 62      | 68      | 64      | 63      |
| Health           | 8       | 29      | 25      | 52      | 61      | 67      |

Source: Williamson and Canagarajah (2003, Table 2)

36. There was also within-year variability in terms of actual cash flows. While this sort of variability was not necessarily damaging in many areas, it did cause problems in agricultural sector where activities follow a seasonal pattern and should be funded accordingly. For example, releases to NAADS (National Agricultural Advisory Services) should have been heavily focused on July. Instead the mid-year shortfall was made up in November and December of 2002 (WB 2003c, Figure 3.1).

37. Local governments mostly received their allocations but there is a perception among those interviewed that there is unacceptable diversion of funds from their intended uses in many localities and that local governments often do not have the capacity to make effective use of the funds.
38. Despite the clear benefits of direct budget-supported aid, Uganda is highly aid dependent, with aid levels at 13-14% of GDP, effectively supporting one half of Uganda’s budget. The various donors have expressed confidence that aid levels will not suddenly drop as long as Uganda follows its current course, and short of any political or military developments that alienate donor support. These assurances notwithstanding, there is empirical evidence (see Bulir et al, 2003) that aid is more volatile than domestic revenues, that its volatility increases with the rate of aid dependency, and that aid tends to be pro-cyclical (amplifying, rather than offsetting the cyclicality of growth and domestic revenues). This possibility means that the Ugandan Government should be vigilant about the risks that long-term aid dependency at this level poses to the sustainability of its poverty reduction program, which could not withstand a sudden cut in aid flows. It is also important to ensure that there is a long-term commitment within Uganda to the use of its own resources for poverty reduction, because there will need to be a sustained internal effort long beyond the life-time of current donor-supported programs, and there is a danger that poverty reduction will be seen as impossible without donor subsidy. There is also the question of whether increased donor funding has weakened Government incentives to mobilize resources locally, and replace aid with investment. While donor aid is useful in making up for a low-tax base in an agricultural economy, this can be viewed only as a transitional arrangement in Uganda to allow for the strengthening of the agricultural sector, and cannot be viewed as desirable for long-term growth and self reliance.

39. In summary, direct budget support has helped make the overall budget envelope more predictable although there continues to be a risk of sudden cut-backs, given that foreign aid is, in principle, annual and could be cut back between years for a variety of reasons. So far, however, the main disturbances have come from within Uganda due to within-year supplementary requests for the defense and public administration over-runs encroaching on expenditures outside the PAF. This has forced expenditure cuts in areas that may have an important impact on poverty alleviation (e.g. agricultural research and development and some road programs).

40. **Transaction Costs of Aid Delivery.** Various Government officials indicated that, in their view, while some transaction costs had declined, there were significant costs to Government due to the size and frequency of the PRSC missions (at least 3 per year, some with as many as 35 people), together with the volume of PRSC-related documentation. On the other hand, there is little doubt that the Government prefers the combination of the PRSC instrument and a small well-targeted set of investment credits to a combination of investment credits and an occasional adjustment or sector credit. The costs of establishing the parallel structures associated with investment lending, such as Project Implementation Units (PIUs), separate financial management systems, and procurement procedures are thought to be high in a number of respects. The Government argues that further proliferation of projects would lead to fragmentation and non-transparency of aid, that the PIUs often attract competent people away from the Government by being able to pay higher salaries, and that they make donor harmonization and the pursuit of sector-wide approaches more difficult. They also argue that the PRSCs helped them sharpen the strategic focus of the Government’s reform program, that they did not distort resource allocations, and that they helped them tackle
cross-cutting issues in a much better way than investment projects. In short, the PRSCs are the preferred aid instrument.

41. Data for World Bank loans indicate that the size of an average investment loan/credit (typical World Bank project) for the five-year period 1998-2002 for Uganda was $40 million while the size of each of the three PRSCs was $150 million. The average preparation plus supervision cost of an investment credit for the same period was $450,000. The average cost of preparing and supervising a PRSC was $800,000. In addition, PRSCs often benefited from Bank sector staff overlapping their sector missions with PRSC missions, but charging their time to the sector budgets. Adjusting for these, 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 for 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.

42. Finally, the World Bank assistance strategy even before 1999/2000 was to move away from largely project instruments, regardless of transaction costs, because in a number of cases the projects were not working (education, health, water and sanitation). They were to be replaced by sector credits, such as the one in education (see paras. 59/60 below). The move from sector credits to multi-sector PRSC budget support was a logical next step. The PRSCs would be complemented by projects in power and roads to underpin growth and by projects supporting the development of capacity at the local government level. In retrospect, the success in service delivery in education, water and sanitation, and less so in health, suggest that the PRSC sector-wide, across-the-board, approach has been successful. It also seems to have lowered the transaction costs to the donors and has helped strengthen the strategic focus in a number of other sectors. While one cannot prove that the PRSC approach has been better as well as cheaper than the (“projects only”) counter-factual, it is probably a reasonable bet that it was.

43. Government “Ownership” of the Reform Program (Commitment to and Management of Poverty Reduction). It has been customary in recent years for donors in Uganda to use the term “Government Ownership” to describe donors’ views about the extent to which a government demonstrates its commitment to policies it has embraced, through tangible enactment of measures to achieve those policies. The term is becoming increasingly unhelpful in the Ugandan context, partly because of its underlying patronizing tone (that donors somehow have insight into government motivation that is more accurate than government’s public commitment), but also because the term obfuscates understanding of the various issues that slow down and complicate progress. Through the PEAP, and through fulfilling the Prior Actions required for three PRSC’s, the Government has demonstrated its authentic commitment to poverty reduction and the policies that are thought to be necessary to achieve such goals. At the same time, there are clearly some problems in achieving full political support across a broad spectrum of interests, including Parliament and NGOs. It is also the case that public administration still lacks the human, organizational, and system capacity to easily implement policies that have been agreed, and this is especially true in terms of local government
weaknesses and continued problems of corruption. There are undoubtedly some difficult trade-offs facing the Government in its efforts to enact the PEAP, and these include issues related to military expenditures, the conflict in the north, and attention to marginalized regions. These are not simple dilemmas with easy solutions. Donors complain about delays in Government delivery on agreements. It is also clear that the Government still relies on a limited pool of talent, and this group is heavily burdened, often caught between work to enact PEAP measures, and meeting donor demands.

44. Improved Coordination within Government. The stock-taking process found that awareness of the goals and mechanisms of the reform program is high at the technical level in Government, although this varies across sectoral ministries. Ministries such as Education that had sector-wide programs before the PRSCs were introduced, are leading the way. The large, rapidly evolving reform agenda is facing some resistance among ministries accustomed to project-based donor funding; and weaker ministries are struggling with the demands and new processes required by the PEAP approach. The PEAP has made it clear that many of the most critical poverty reduction reforms can be achieved only through the coordinated action in a number of sectors, and the traditional boundaries around ministries, as well as sheer work-load, makes cross-ministerial collaboration difficult. Some of the results from the review of the performance in service delivery over the past few years suggest that weakest performance happened precisely in areas that required intense cross-ministerial coordination.

45. Nevertheless, as a result of Government introduction of various coordination processes, cross-sector coordination, dialogue and prioritization of the reform program is improving, and the allocation of resources is becoming more transparent. Among the most important coordination innovations introduced by the Government is the introduction of a new inter-ministerial coordination mechanism, above the ministry of Finance, Planning and Economic Development (MOFPED) placed in the Office of the Prime Minister (OPM, 2003). This coordinating office will require strengthening and support in a number of structural, capacity-related, and organizational areas if it is to fulfill its mandate. For example, some competent Government analysts involved in the preparation of the Policy Matrix and measures of success, should probably be assigned to this coordinating office. Even more importantly, the OPM group should be responsible for following through on the implementation of the PEAP-PRSC policy measures, and report regularly to the Implementation Coordination Steering Committee (ICSC) on PRSC progress. Both through the ICSC and in direct interaction with donors, the OPM group should share vital monitoring information with the donors involved in budget support. Special attention may also need to be paid to cross-cutting issues that involve actors from many ministries since the centripetal forces to stay within one’s silo (sector) are powerful.

46. A number of Government officials said that rallying commitment would be helped if the PEAP policy matrix to guide the reform effort (which would include the PRSP matrix as an important part) were prepared entirely by the Government. Some others argued that having parts of the matrix be a donor demand (e.g. for issues touching on governance issues) would help put on the agenda reforms that are politically difficult and might not
advance without an outside push. However, such an approach would require a broad consensus among senior officials.

47. There is also a feeling that more needs to be done to raise awareness of and support for the reform program in parliament, so that parliament itself can champion the reform program among the broader populace. Preparing popular booklets such as “Budget at a Glance” or “Citizens’ Guide to the Budget Process” is one such effort (and the booklet was commendably available in seven local languages), but more materials are needed. Government and parliamentary outreach would have to be matched by strengthening the involvement of civic organizations, NGOs, and community groups in the PEAP process, particularly at the local level, not only in terms of the debate, but at each stage of the cycle, including planning, implementation, monitoring, and evaluation. This should be a major goal for future PRSC operations.

48. **Better Coordination of Donor Activities and Sectoral Working Groups.** Donor coordination and harmonization has improved, assisted by the Partnership Principles between the Government of Uganda and its Development Partners (see Annexes 1 and 2). This document gives guidelines for coordination, dialogue and reporting, conditionality, projections of expected support for the MTEF, disbursement arrangements, and accountability and audit requirements for general budget support. There are regular donor meetings of about two dozen sector and other working groups, many of which are attended by government officials and a good number of which overlap with the 14 Sector Working Groups set up by the Government to prepare sector Budget Framework Papers (MOFPED, 2003c). These interactions have helped deepen individual relationships among donors and between donors and government officials; they have also encouraged a constructive problem-solving approach. However, there is some unevenness among the various sector groups in terms of the depth of the strategic vision and the level of discourse, where the quality is well below that of the core government ministries. Both Government and donors need to take steps to identify which are the critical working groups (especially cross-sectoral groups) for the next PEAP-PRSC cycles forthcoming period, and help raise the level of the lagging groups to the level achieved in such groups as education, health and, more recently, water and sanitation.

49. **Overall Summary of Government and Donor Views of PRSC Process.** There is a broad consensus that the benefits of the PRSCs outweigh the costs, and agreement that progress is being made in meeting some important PEAP goals. However, there is a more positive perception in Government than among donors. This is partly because, with some qualifications, the Government strongly favors the PRSC funding mechanism compared to project-financing, and is also strongly committed to the greater autonomy and self-reliance the PRSC has encouraged. At the same time, the Government is candid about the pressures this approach imposes both in terms of some increased complexity without a sufficiently rapid growth in capacity and supporting systems, and on occasion, the heavy demands that donors, especially the World Bank make on their limited time and resources. The donor group believes that the PRSC process is a beneficial innovation, but that in many respects the PRSC operations to date have yet to deliver on some of the stated goals of the process, and that there is a need for some significant adjustments in a
number of aspects of the design and implementation of PRSCs. These are discussed in the sections that follow.

Broader Concerns

50. **Poverty Reduction.** The poverty numbers that have just emerged from the 2002/03 household survey are likely to lead to a change in focus of the next (third) PEAP, and even more so in the case of future PRSCs --- towards a more direct support of income generating activities and towards having to pay closer attention to the North. Poverty reduction is the overarching goal of the PEAP, and therefore the core reference point for the design of past, current, and future PRSCs. The achievement of PEAP goals depends more on the increase of incomes among the poor than any other single objective. This is because the same rapid growth that will be needed to increase incomes among the poor will also help increase domestic revenues needed for sustained delivery of basic services that are important in improving the non-income dimensions of poverty. The first three PRSCs emphasized service delivery, strengthening of governance and improving resource allocation, all of which help create a context in which poverty reduction is achievable and sustainable, and which may contribute in indirect ways to increased income. However, none of the PRSCs have taken up directly the jobs/incomes challenge that lies at the heart of the PEAP (aside from some aspects of service delivery to agriculture that were introduced in PRSC 2).

51. There is no doubt that social service delivery in education, health, water and sanitation can, and is, contributing to the quality of life and a longer life-span in ways that are crucial to the overall poverty reduction effort. However, there is little evidence in the Uganda’s socio-economic framework to believe that these improvements will lead to improvements in incomes or reduction in the poverty headcount any time soon. Some production-oriented services, such as research and extension or rural roads, could potentially contribute to raising incomes of the poor, especially in sectors where the elasticity of poverty reduction with respect to an increase in income is relatively high (Townsend, 2003). However, a number of other factors would need to be in place before that result will be forthcoming, and a growth in markets for agricultural products is clearly the most important of these conditions. Better farming practices on their own do not necessarily result in entrepreneurship and its essential skills. These are essential if incomes are to improve. It is not clear exactly how PRSCs can focus on these aspects of poverty reduction, but as these are **Poverty Reduction Support Credits,** and represent the key financial support from the World Bank and other donors for poverty reduction, it would be difficult to argue that PRSCs (or complementary World Bank operations) should not focus on such issues.

52. The issue of the North is especially problematic. Poverty has hardly declined there in the last 10-12 years. As long as the conflicts with the LRA and the Karamajong are not solved, this situation is bound to continue and be reflected in the overall poverty profile for Uganda. PRSC is not the instrument to tackle that issue, but it is essential for partner donors in the PRSC, who are better positioned to work on conflict resolution, to ensure
that this goal is not de-linked from the PRSC, but remains a parallel, essential requirement for poverty reduction goals.

53. Focusing on the accumulated analysis of poverty trends in Uganda, a key fact is that between 1992 and 2000, headcount poverty in Uganda declined from 56% of the population to 34%. (Table 9). Most of this improvement was achieved before the Government’s poverty reduction strategy had much of a chance to have an impact. Rather, these improvements were the results of a recovery from war, benefits from macroeconomic stabilization, various structural reforms, and the mid-nineties coffee-boom. Since 1997 an explicit poverty reduction strategy (starting with the first PEAP) has been in place. Yet poverty numbers from the 2002/03 household survey show a rise in headcount poverty back to 38% of a now much larger population of Uganda, estimated at about 23 million at the time of the household survey. The number of people in poverty increased from 7.2 million to almost 9 million, most of them living in rural areas, and especially Eastern Uganda, where headcount poverty increased startlingly from 35% in 1999/00 to 46% in 2002/03. The mean per capita consumption of every group other than the top 20% of the population, declined significantly; and income Gini coefficient rose to .43 in 2002/03 from .40 in 1999/00. In effect, Uganda’s growth over the past three years has been pro-rich and not poverty reducing. Inequalities were larger in urban (.48) than rural (.36) areas (see Table 9). Geographically, poverty continued at above 60% of the population in the North. Poverty increased strongly in the East and West and rose marginally in the Center which already had the lowest poverty headcount. Increases in the rural areas were higher than in the urban areas.

Table 9 Headcount of Poverty in Uganda, 1992-2002

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<tbody>
<tr>
<td>Headcount Poverty (%)</td>
<td>100.0</td>
<td>55.7</td>
<td>44.4</td>
<td>33.8</td>
</tr>
<tr>
<td>National</td>
<td>86.2</td>
<td>59.7</td>
<td>48.7</td>
<td>37.4</td>
</tr>
<tr>
<td>Rural</td>
<td>13.8</td>
<td>27.8</td>
<td>16.7</td>
<td>9.6</td>
</tr>
<tr>
<td>Urban</td>
<td>29.6</td>
<td>45.6</td>
<td>27.9</td>
<td>19.7</td>
</tr>
<tr>
<td>Central</td>
<td>27.4</td>
<td>58.8</td>
<td>54.3</td>
<td>35.0</td>
</tr>
<tr>
<td>East</td>
<td>24.7</td>
<td>53.1</td>
<td>42.8</td>
<td>26.2</td>
</tr>
<tr>
<td>West</td>
<td>18.2</td>
<td>72.2</td>
<td>59.8</td>
<td>63.7</td>
</tr>
<tr>
<td>North</td>
<td>.36</td>
<td>.35</td>
<td>.40</td>
<td>.43</td>
</tr>
<tr>
<td>Gini Coefficients</td>
<td>.33</td>
<td>.31</td>
<td>.33</td>
<td>.36</td>
</tr>
<tr>
<td>National</td>
<td>.40</td>
<td>.38</td>
<td>.43</td>
<td>.48</td>
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| Rural | Urban | Note: Figures for 1999/00 and 2002/03 were made comparable by adjusting for the four districts that were in conflict and could not be surveyed in 1999/00 (Kitgum, Gulu, Bundibugyo and Kasese). Sources: Appleton, S. (2001), MOFPED (2000d), Okidi, J. and Ssewanyana, S. (2003)
54. It is not yet known how various factors account most strongly for this poverty reversal. It is clear, however, that the growth strategy for Uganda cannot rely solely on a combination of the traditional elements: GDP growth, human capital investment, improved public administration, delivery of services, reduced corruption, relaxed regulation to encourage production and exports, fiscal stability. All of these remain vital and relevant, but they will not be sufficient to reverse the trend. One major factor is the rate of growth of population which, based on the recent census, was revised sharply upward to 3.4% per annum. Population growth rate of that magnitude (Uganda’s total fertility rate of 6.9 is one of the highest in the world), will put a serious strain on the public resources and is likely to put the achievement of several of the MDGs beyond reach.

55. Hopefully the new PEAP will provide an analytical basis from which to design more direct interventions that will impact jobs and incomes. Whether or not such measures can be supported by future PRSCs, the success and contributions of future PRSCs will depend in large part on whether the Government, with or without donor support, is embarking on a determined effort to increase the rate of growth of the economy. This must inevitably require a significant reallocation of and an increase in public resources, particularly in the area of infrastructure where the expenditures are substantially lower as a proportion of GDP than in the economies that have achieved sustained rates of growth of over 7% per year. It would be unfortunate if such a reallocation were to rob essential services of needed resources, although even in this area, thinking will need to be done about priorities and the efficacy of boosting certain service sub-sectors in the absence of job/income growth. Continuing commitment to poverty reduction will require the Government to take tough budgeting decisions (including holding and ideally reducing expenditures in defense and public administration), cost reduction and efficiency boosting measures in services and government operations, continuing efforts to save resources from being siphoned away by corruption and rent seeking, and renewed vigor in plugging loopholes and drainage in the collection of tax revenues.

56. Capability of Government. Interviews with government officials and NGOs indicate that improvements in institutional capacity are more visible at the national than at the district and local levels, and that there is a wide difference among various sector agencies. Capability of government is at the heart of more rapid growth, poverty reduction and improved service delivery. The process of capacity strengthening and institution building has been underway in Uganda for more than a decade, and while beneficial results have emerged, especially at the technical levels, the various interventions have also demonstrated the complexity of building lasting capacity in a situation in which (a) new demands on public administration are constantly emerging (including donor demands); (b) there has been a significant reliance on technical assistance, and transfer to local capacity has been only partially successful; and (c) the task has been made even more complex by the process of decentralization. Because capacity building efforts have, at best, established only tentative links between increased public administration competence and poverty reduction, much energy has gone into establishing systems and processes that often become ends in themselves, rather than means towards ends.
From the outset, each PRSC has recognized the need to focus on system-wide capacity building issues, the “governance” pillar of the PEAP. Each PRSC has a fairly extensive annex that covers the Institutional Reform Program that has been identified as needed to achieve PEAP objectives. Monitoring has, so far, addressed the question as to whether these reforms have been enacted, and has not looked in any great depth (except perhaps in the health and education sectors) at whether or how the reforms have helped achieve poverty reduction goals. Future PRSC Institutional Reform Annexes need to be more integrated into the operations. This will involve calculating, however tentatively, the costs of the proposed institutional reforms and fitting these costs into the overall budget envelope; and establishing an impact evaluation framework which can test whether and how these reforms are impacting on poverty reduction goals. It will also be necessary, given the burden which public administration already faces and the limited capacity from which government can draw, to ascertain whether the reforms are sufficiently parsimonious, or err on the side of unnecessary complexity.

As the PRSC does not, in fact, implement capacity building reforms beyond budget funding and enactment of particular measures, the process has to rely on the many other capacity building processes taking place in core ministries, sector ministries, and local government. It is not sufficient to simply acknowledge that these efforts are being undertaken. It is important that the PRSC/Government team have a full appreciation as to how these current efforts are likely to support poverty reduction goals in practice (not simply conceptually), whether there are key needs and gaps which the current capacity building programs are not addressing but which are vital for the PEAP outcome, and whether the various programs are sufficiently coordinated. As the PEAP goals are the over-riding goals for Uganda’s development strategy, the PEAP and PRSC provides the perfect perch from which to monitor and evaluate all the various efforts being made to strengthen institutional and human capacity. If after such a review, it is clear that there are still gaps and vital areas not being adequately covered, there may be a need for a parallel program (such as CAPEP, Capacity and Performance Enhancement Project, proposed by the World Bank). However, without the overview and integration of capacity building efforts, such an intervention runs the risk of becoming another stand-alone initiative with limited results. There are five essential challenges that need to be faced by future PRSCs in terms of the needed capacity to achieve PEAP goals. Firstly, is enough being done to build capacity at the local level, especially in those regions that have experienced the sharpest increases in poverty? Secondly, how can capacity be strengthened among the enablers of poverty reduction (local community groups, NGOs, farmers associations, trade groups) to help them play a fuller role at each stage of the process, but especially at the planning stage? Thirdly, what can be done to build an adequate cadre of skilled Ugandans who can more rapidly and effectively take over from provided international technical assistance, and reduce its need in future (and what can be done to provide them with the incentives to remain in public service)? Fourthly, how can more effective, results-oriented measures/indicators be established to determine whether the institutional reforms enacted are in fact producing the poverty reduction contributions attributed to them. And finally, to be covered in more detail below, what needs to be done to strengthen the Office of the Prime Minister to take the lead coordinating role in linking PRSC-supported actions and goals to the PEAP, tracking the results of the reforms, and operating as the key interlocutor with PRSC-supporting donors?
59. **Aid Modalities.** Almost everyone agrees that budget support operations such as PRSCs are not the best instrument in all situations. Sector-wide approaches (SWAPs, which can be financed either through budget support, or as standard projects, or a mix of the two, but are NOT in themselves financing mechanisms), may be superior when there are a number of detailed reforms and processes which take time to implement and require a complex implementation design. Projects are needed in sector-specific situations which have clearly defined, concrete outcomes, and where the country does not possess all the implementation capacity needed. Uganda made a number of important policy reforms through SACs, even though these sometimes caused relationship and financial flow problems (due to conflicts between donors and Government). Uganda PRSCs have undoubtedly helped change the relationship between donors and Government, and introduced greater flexibility in the management of resources. It is not clear, however, whether, in terms of the PEAP goals, Uganda has the optimum mix of type of operations. In fact, it is not clear how one could make that determination in a way that is more objective and systematic than considered judgment.

60. However, the World Bank’s experience with education in Uganda may provide some clues. In 1993, the World Bank’s Board approved an education project that was to support Primary Education and Teacher Development (PETDP). This project was judged “unsatisfactory” in an internal World Bank evaluation in 1996, which was the very year that the Government introduced the Universal Primary Education (UPE) program. The World Bank supported the UPE through an Education Sector Adjustment Credit (ESAC, approved in March 1998) which was essentially budget support to a SWAP in education. It was judged internally to have been satisfactory. Moreover, the UPE galvanized the work supported under the PETDP project which ended up being rated as “satisfactory” by 1998 (see Murphy, 2003). The PRSC then continued to support service delivery and the reform program in education to the point where it is now a “one liner” in the PRSC. If the education sector undertakings in say April of any year are viewed as having been carried out and reported in the education sector review in October of that year, then education is funded directly through the budget, as agreed earlier. The experience points to two possible conclusions: the first is that the three modalities were interconnected and sequenced in a way that produced positive outcomes and development of greater Ugandan self-reliance. The PETDP project needed a larger context in which to be successful, and the education “one liner” prior action in the PRSC could not have happened without an underlying SWAP-like process that underpinned the PRSC (see list of Education Sector Undertakings in Annex 3 which is substantial, but is handled as “one line” in the PRSC). This suggests that the background of a sector-wide strategy may be of critical importance to both PRSCs and projects. The other possible conclusion is that PRSCs will have the greatest impact in sectors in which Government has already demonstrated capacity and progress through the creation of a rigorous analytical framework, a convincing financing plan, and the institutional framework to make the reforms happen. At the same time Uganda’s progression from projects, some of which did not work until put in a sectoral context, through sector operations to supporting multi-sectoral actions via PRSCs, suggests that there is a point in a low-income country’s development where sector and budget support become an instrument that is superior to the “projects only” instrument.
61. **Absorptive Capacity**. At present, absorptive capacity rather than flow of financial resources is considered by donors and some Government officials, to be the more important constraint. If more money is coming into Uganda than can be used effectively within a given time-frame, one of the expected results would be a rise in unit labor costs in the non-traded goods sectors. That, in fact, is what is happening in Uganda today. Monetary authorities, in an attempt to control these inflationary pressures, have cut back on the rate of growth of money supply. Given the large foreign aid inflows, either the exchange rate must be permitted to rise (which is a disincentive for exports), or real interest rates must be raised (which is bad for investment). Arguably the same dilemmas would exist if all aid came in the form of project funding rather than budget support. The answer hinges on the proportion of budget or project funding that is spent on non-tradeable goods (and it would be worthwhile to conduct some research on this topic). Whatever the answer to this problem, it would make sense to find ways of identifying the parts of government in which absorption is a special problem, and respond to these with a combination of more controlled release of resources and measures to improve absorption capacity. In addition one could search for ways to help build capacity in the private sector that the Government could outsource to. These and other issues need discussion, and it is recommended that the evidence and options be discussed in the Government/Donor PRSC team. This issue is closely linked to the next one: aid dependency.

62. **Aid Dependency**. Uganda’s aid dependency is high and there are signs of “Dutch” disease. As mentioned in the previous paragraph, unit costs of non-tradables such as construction are rising much faster than the overall price index. Uganda’s effort to raise its rather low domestic tax revenues needs to be redoubled as it now supports barely a half of total budget expenditures. This is also the stated intention of the government. Large flows of aid, of any kind, prevent this issue from being experienced with the right level of urgency. Significant reforms were introduced in this area over the last decade, and the outcomes are far from satisfactory. There is among some donors a view that a continued flow of aid is more desirable than an effort to replace part of such aid through tax revenues. This is based on the well-known arguments made by Collier et al, concerning the negative impact of increasing domestic revenues in a largely agricultural economy still undergoing significant reconstruction. When applied to Uganda, this argument had legitimacy in the first decade or so after conflict, but should not be viewed as a long term solution. It would not serve Uganda well to continue for the next decade or two financing a significant portion of its poverty program through external loans and grants. That would signal a failure in being able to generate and harness the potential wealth of the country to ensure that efforts to eradicate poverty are fully under Ugandan control and are hence likely to be sustainable. No assurance from donors that aid flows will be sustained should be taken by an independent government as a guarantee. This is not to argue that the move from aid to domestic resources and investment can be a sudden one. The process is clearly long-term, but needs to be better charted in the World Bank’s CAS, and form a clear, agreed discipline among donors when it comes to planning future aid volumes. The PRSC is not a useful instrument in this respect, given its one year time frame. Even if the PRSC does not move to a multi-year program (and there are good arguments for keeping it as an annual instrument), each annual operation needs to be planned within such a multi-year aid program, and this should not simply be a reflection
of estimated budget gaps. From the perspective of both aid dependency, and the absorption capacity problems described above, it is important that donors agree to some overall aid limits, coordinate rather than compete, and carefully scrutinize the priority of all projects even if some of these projects are welcomed (predictably) by individual sector ministries, or being energetically advocated (again predictably) by individual task managers. The World Bank should also be willing to apply its own stated principle of encouraging utilization of grant resources first, and operating in Uganda as lender of last resort. This should apply not only to projects and financing contributions to co-financed operations, but also to disbursements.

63. **Political Economy, Conditionality, and Principle of Graduated Response.** Issues of political economy were repeatedly raised by Government participants at the stocktaking workshop. They argued that as the implementation of adopted legislation proceeds, there are serious risks of policy reversals if the reforms are resisted by influential vested interests. On this view, Prior Actions (see Annex 4 for the principles involved in selection of Prior Actions), which trigger the presentation of the next PRSC to the World Bank’s Board, should contain more conditionality with respect to actual implementation than with respect to just initial policy enactments. While this balance has been shifting towards the implementation end of the spectrum over the years, a number of donors still feel that there is insufficient emphasis on results and outcomes and view Prior Actions as simply the start of the process. In some cases this emphasis is accompanied by a demand that PRSCs include some element of tranching (i.e. that PRSC instrument be “multi-year”) based on the monitoring of these emerging results, and it is clear that some donors will probably operate according to such a principle even if the World Bank continues to fully disburse on the basis of the enactment of Prior Actions. As long as PRSCs remain a single disbursement one year operation, there is some danger that a significant lack of real progress following the initial enactment of a Prior Action, could result in one or more donors withholding financial support from the next PRSC, or even holding up disbursement during the current year. On the other hand, so far every year the PRSC processing has been perturbed by events that had not been foreseen initially: substantial budget over-runs by mid-year, unexpected defense expenditures, and leadership code issues created situations that would have presented challenges that a multi-year PRSC might have had trouble overcoming. For this reason this paper argues for a “graduated response” approach, while continuing to use the annual PRSC instrument.

64. Some argue that if direct budget support were reduced or delayed, project financing would provide Uganda with a floor to overly large fluctuations in overall aid. While this may be true in terms of aid figures, it is unlikely to be true in terms of performance. When budget support declines, counterpart funds become scarcer, and not all projects can continue uninterrupted. Choices are made, resulting in interruptions and a decline in the effectiveness of aid. In addition, because a cutback in direct budget support would probably be due to the deterioration of the overall performance of the country’s reform program, this fact would also reduce the effectiveness of projects linked to the issues being disputed. More project aid is therefore not the antidote to possible cuts or delays in direct budget support. The answer is to fix the problems that have caused the impasse, and to find a mechanism by which this situation can be anticipated and managed to
ensure that the economy is not destabilized. The answer may lie in the adoption of a framework of graduated response, and the following paragraphs sketch three examples of such a response.

65. The PRSC process is based on an expectation that as Uganda will receive a major amount of its resources in the form of budget support, that the flow of these resources will not be interrupted within a budget year, and that the between-year changes will be reasonably predictable. Uganda qualifies for such support because it has a fairly mature program of reforms (a poverty strategy, sector strategies, some sector-wide programs, a reform-minded government with a track record, trust between government and donors, and a wide net of working relationship with government officials that allows donors to assess progress on a continuous basis). It is unlikely, although not impossible, that Uganda will veer off course suddenly and dramatically. A look at the World Bank Country Performance and Institutional Assessment ratings (which are important in determining the size of the World Bank’s assistance program) suggests that sudden large changes in these ratings from one year to the next are rare and virtually non-existent in countries with mature aid programs. The most reasonable projection is that Uganda, being a mature borrower, will by and large adhere to the performance framework agreed with the donors; and donors will probably not have sufficient basis to suddenly reduce their budget support. Rather, the preferred response would be graduated, a slowing down of disbursements or a delay providing the space for dialogue and opportunity for the Government to seek remedies.

66. Notwithstanding, there are some indications of donor impatience on certain aspects of Government expenditures, lingering corruption, and the continued watering down in implementation of some policies that have been enacted. If this situation continues, it is not impossible that one or a few donors may decide to reduce their contribution to the overall budget support package. If situations that would trigger such consequences are specified in advance, outcomes are in the hands of the country’s decision makers, and such donor actions need not be destabilizing for the entire program. This is another example of a graduated response.

67. A third possibility would be to include some element of segmentation in the release of funds within the PRSC. There could be a core amount that is dependent only on the enactment of agreed Prior Actions and continued good performance that Uganda is making in achieving PEAP goals and maintaining macroeconomic stability. Further amounts could be calibrated to harder demands for reform, whether these are of a deep institutional nature or reforms that are more political in nature and call for strong political leadership. The tricky issue will be to reach a consensus that will bind all donors rather than have a particular donor’s financing support linked to such issues. On the surface, the simple solution could be donor parallel financing outside the PRSC tied to a donor’s political or governance concerns. However, this would be a superficial solution that does not address the deeper donor concerns about ways in which vested domestic interests undermine progress. It is also vital that donor support in Uganda is well coordinated, based on transparent country assistance strategies, with clear links to the PEAP. The transparency should apply both to public scrutiny and to discussions within sector working groups to ensure compatibility with agreed sector strategies. This needs to be
combined with a careful assessment of absorptive capacity (as discussed above), but also provide sufficient assurance of budget support for the following three years (on a rolling basis) to enable the Government to plan the longer term interventions and programs needed to make an impact on tenacious poverty problems. The recently signed Partnership Principles between the Government of Uganda and its Development Partners (Annexes 1 and 2), try to embody the spirit of this approach. It is important that the issues described above are openly discussed at a senior level among the donor agencies, to avoid a situation in which one or more donors feel they have no choice but to withhold aid because their concerns are not being addressed.

68. Scope of PRSC Matrices. As Uganda PRSCs moved from the first to the third, Policy and Quantitative Monitoring Indicators matrices grew like topsy. Both on the Government side and among donors, these matrices are judged to have become too large, and there is broad consensus that selection criteria should be developed to guide the inclusion of new issues/areas, and to provide for the exit of others. Government officials emphasized that actions cutting across sectors were much more successful when included in the PRSC, rather than being pursued purely within a sectoral programs. In education, an example is the interlinked program of teacher recruitment and deployment, textbook publishing and classroom construction, for which responsibility falls within three separate ministries (MoPS, MFPED and MLG), all outside of the Ministry of Education and Sports. As a result many ministries have attempted to have their cross-cutting goals included in the PRSC policy matrix.

69. As sector-wide strategies have matured in their various sectors, they have been moved into a “one-liner” mode in the matrices although they are still financed under a PRSC. The real action in these areas takes place at the sector level through continuous close collaboration between Government and donors, punctuated by formal detailed reviews of the sector’s progress within the framework of the sector strategies, as well as the PEAP and the PRSC. This has helped control some of the growth of the matrix, especially when education and health sectors were converted to this “one liner” mode, although each “one liner” was underpinned with a rather extensive list of undertakings (see Annex 3 for the case of education or PRSC 4 document for several other sectors). However, care must be taken to ensure that where there are links between sectors that have been reduced to one-line entries in the matrix, and other sectoral actions that are fully described in the Policy Matrix, that these links continue to be made specific. Ultimately, the “one liner” mode may just be helping to hide the fact that the scope of the PRSCs has reached its limits. It may be time to consider supporting some sectors through separate operations. One idea, in view of the recent rise in income poverty, might be to design a budget-support operation that focuses on economic growth issues.

70. Results Orientation. As indicated earlier, there is a strong concern among donors that judging progress under PRSCs needs to be based more firmly on tangible results, that prior actions more specifically spell out the milestones and outcomes that these actions are intended to produce, and that less reliance is given to judgments based on observing a process under way. Discussions concerning results orientation focused on two main elements. The first is the issue of better alignment, between the PEAP and the PRSC, and between the outcomes sought in the Policy Matrix and the Quantitative Monitoring
Indicators used to track progress. Improved alignment between the PEAP and the PRSC seems to be, in part, a matter of accurate prioritization,--that the PEAP should be the main derivative source for the PRSC, even though there may be other valuable public administration reforms that require attention. The PRSC goals should do more than mirror the poverty reduction goals of the PEAP, but should be established, implemented, and evaluated in a way that directly captures the concrete poverty reduction goals the Government has prioritized. The links in other words should go beyond a conceptual foundation (e.g. that “actions of this nature have been shown to ….”). Improved alignment between the Policy Matrix and the Quantitative Monitoring Indicators, suggests a tighter discipline, both in terms of determining what is possible to achieve, over what kind of time frame, and assuming the policy measures are both appropriate to the situation and implemented effectively, what sort of changes should it be possible to detect, in very specific terms.

71. The second issue related to an improved results orientation concerns the actual rigor of the methodology, the way goals are set based on what can be measured, the way indicators and outcomes are derived from both the situation and the types of reforms, the information that would need to be collected and interpreted to inform both tracking and impact evaluation, and the rigors needed to ensure validity, reliability, and utility of the process. Validity concerns whether what we are measuring is, in fact, what we believe we are measuring, rather than the result of factors that are not related to the particular reform. Reliability concerns the extent to which we can depend on the data and the interpretations, and the extent to which generalized conclusions can be derived from them. Utility (or usefulness) concerns whether the findings are sufficiently clear, detailed and practical to underpin decision-making (to continue the reforms as planned, to change course, to add other supportive measures, and the like).

72. Donors frequently raise the issue as to whether we are actually observing cause and effect in evaluating PRSC outcomes, or merely observing correlations. They also raise the issue of the intervening variables (factors that are not being controlled for, or even, for that matter measured) that can explain poverty reduction trends as convincingly as (or alongside) the impact of PRSC reforms. Just as important is the fact that if the analysis and/or the information base is incomplete, the utility of such evaluations is compromised, because policy analysts do not have sufficient insight into what is happening to be able to propose adjustments or additions that will be strategically powerful. Given a situation in which the Ugandan Government is burdened by a huge agenda of reform and ongoing routines, there needs to be a parsimony in the formulation of policy proposals. Evaluation that is based on incomplete analysis, inevitably results in falling back on prevailing “development ideology” rather than Ugandan realities, and encourages the view that donors are using the country as a laboratory for testing their favorite theories. This is often a charge (whether or not justified) made by NGOs that feel they are close to the reality, but whose contributions to the policy debate are marginalized because “money rather than truth drives the reforms”. A more rigorous and wider-based evaluation process will not only help hone policy formulation, but can also help stimulate the participation of civil society.
73. In summary, an improved results-oriented evaluation process could strongly benefit both the PRSC cycle and help strengthen policy analysis related to poverty reduction in Uganda. Such improvements would not only include a deeper analysis of the actual outcomes that a set of reforms would be expected to achieve, and the milestones on the way to those outcomes, but would also focus on whether there is actually sound (valid, reliable, useful) information and analysis that can demonstrate the impact of reform interventions. Little is to be gained by trying to control for variables outside of the PRSC reform agenda, as there is no practical way in which this can be achieved, and such a hope tends to fuel speculative judgment rather than rigorous analysis. Rather the evaluation model needs to be broad enough to encompass all the major factors that will have an impact on poverty reduction goals, including factors not being targeted in the PRSC. It therefore follows that the PRSC should be meticulous in describing the broader set of factors, indicating how the actual PRSC reform goals fit within that broader framework, and how some of these factors could support or obstruct the achievement of PRSC goals. This approach would provide additional realism to the nature of the PRSC intervention, and help the Government focus on the broader reality. It is also likely to be popular with donors who sometimes express the view that the PRSC process claims too much; and it would avoid the problem of having to explain after-the-event, why poverty has increased in Uganda to a greater extent since the PRSC process was introduced.

74. At a more detailed level, more attention needs to be given to developing a set of strategic questions that need to be posed about the reform program and its results. An example is the areas of efficiency of expenditure allocations and in operational efficiencies within each of the “one liner” sectors. There has been a rapid increase in social expenditures, but are they efficient and/or cost effective, and when compared to other expenditures such as agricultural research and extension or rural roads, are their cost/benefit ratios competitive? Can increasing expenditures on public administration be justified in terms of their impact on better service delivery, more rapid and higher quality growth, or greater poverty reduction? At the level of operational efficiency, are programs in education or health or water and sanitation giving high value-for-money? What are the factors at a local level that tend to drain or divert resources from their intended goals, how can these be monitored, and what actions can help diminish these tendencies? The envelope in these areas needs careful management since resources are scarce and there are still many unmet needs. The process of prioritizing and formulating reform goals and designing the evaluation process may benefit from the use of tools such as Poverty and Social Impact Analyses.

75. It is also vital that a careful assessment is made of the many studies and information bases related to poverty in Uganda, in an effort to bring together the best of these, streamline or eliminate information that is being collected on a routine basis but may have limited utility, validity, or reliability. This task should be located in the Office of the Prime Minister, with appropriate donor support, to help strengthen the overview, coordination, and analytical strength of that office.

76. Annual vs. Multi-Year PRSCs. There is strong support among the PRSC donors for moving from annual PRSC operations to a multi-year PRSC. They argue that many of the issues raised in this paper could be more readily addressed by such a move. While
progress is monitored during the PRSC year, the annual nature of the exercise places the spotlight on Prior Actions and perhaps insufficiently on results and outcomes. It is also very difficult to identify reforms that will show results in a year, and given the pressure to come up with Prior Actions each year may be leading to a situation where there is insufficient time for the reforms to take root. A multi-year PRSC could help focus greater attention on results, and encourage the establishment of longer-term goals which are appropriate to the challenges of poverty reduction. The establishment of additional reforms, or adjustments to those under way could take place “organically”, as the situation requires, rather than a “mechanical annual process”. This could also help reduce the huge PRSC missions that draw criticism from Government and donors alike. Similarly, the disbursement of funds could become more flexible, like a facility rather than a one-time disbursement, allowing a better alignment with the budget process. This could also help with the problems of absorption and aid dependency. For a multi-year PRSC to have this flexibility and capacity to adjust to Ugandan needs and realities, the operation would have to provide the task manager the powers to respond without continually seeking authority. It should suffice for an interim report to be sent to the Board annually, and shorter notes whenever a major adjustment or an innovation is required. If the multi-year PRSC were simply a repackaging of a number of annual operations under one cover, there would be little benefit. So it is recommended that the current reviews concerned with the possibility of introducing multi-year PRSCs focus primarily on the kinds of improvements and flexibilities required, and work to achieve as procedurally light an instrument as possible. While the thinking on this issue should continue, this report argues that at the moment the uncertainties and unexpected events that have occurred annually in Uganda (see para. 63) are better handled through a graduated response based on a series of annual PRSCs.

77. **PRSC Coordination and Management.** Closely linked to the need for an improved results orientation is the issue of how to improve coordination and management of the PRSC process. There are two dimensions of coordination and management worth considering. The first relates to coordination and management within the Government, which has taken the important step of vesting overall responsibility for reviewing and coordinating the PRSCs within the Office of the Prime Minister. For this step to work effectively, OPM must have more than simply review and coordinating responsibility. What is needed is more than a secretariat. The PEAP and PRSC process lie at the heart of the Ugandan development program, and cut across all sectors. Therefore OPM should be vested with the seniority and executing authority to pro-actively coordinate the program in consultation with the Ministry of Finance and the sector ministries (which are responsible for the actual management of their reform programs), propose changes, analyze decisions, convene donor meetings and represent the Government at all such meetings, and report directly to the head of state on the progress of the project. This would require a significant capacity building effort, to bring the level of talent needed into OPM, establish the information bases required, and streamline decision-making. It is proposed therefore that the next PRSC include specific goals for the design of OPM’s PRSC coordination unit, supported by the necessary technical assistance, training, and other strengthening measures. This may be ideal for a UNDP or bilateral donor funded support project, because such an operation may be more likely than a Bank operation to
be launched rapidly and contain the flexibility to adjust to a “learning-by doing” approach.

78. The other dimension of PRSC coordination and management that is worth reviewing is the location of Task Management responsibility. If greater attention is to be given to results and outcome milestones, and especially if the PRSC is to be transformed into a multi-year operation, there would be significant benefits from locating the management of the operation at the Resident Mission. The fact that the PRSC is the core operation in Uganda’s development program implies that the PRSC should be the major concern of the Country Director/Manager, who should have the Task Manager and Core Team on location. This would enable the reform process to be more closely monitored, with greater learning from observation. In addition, there would be better coordination with the major sector reform efforts, improved coordination with donors, an opportunity to facilitate greater involvement from community groups, civic organizations, and NGOs, better on-the-spot understanding of the problems and obstacles affecting implementation in the regions, and direct, every-day consulting support to key implementors in the Ugandan government. The Country Director and Task Manager can request the additional specialized assistance from headquarters as needed, as well as make better use of expertise within the partner donor agencies. In this way, locating the Task Manager and small Core Team in Uganda could be a valuable contribution to the Bank’s goal of decentralizing operations and increasing country accountability. It is also likely that the replacement of very large, frequent PRSC missions would off-set the costs of local location, and perhaps even lead to net cost savings.

79. 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.

Conclusions and Recommendations

80. The PEAP and PRSC processes have led to a substantial sharpening of the overall vision of development and its main strategic components that Uganda is to follow, helping both focus the allocation of resources, increasing the efficiency of basic service delivery, and improving the coordination of the type of cross-sectoral efforts needed for poverty reduction in its various dimensions. The consensus is that the process should continue but with a number of important adjustments, several of which have already been started in PRSC 4, currently under preparation (such as a more results-oriented framework, the improvement of government coordination mechanisms, and the development of the Principles for Prior Actions).

81. Conclusions and Recommendations of the stocktaking of the Ugandan PRSCs are as follows:

a) **Government Commitment to and Management of Poverty Reduction.** The PEAP/PRSC process has strengthened Uganda’s strategic development vision and has raised the awareness of this vision within Government, Parliament, local governments, and civil society. The core Ministries have demonstrated their commitment to leading and managing the process, and the recent decision to center PEAP/PRSC coordination and oversight in the OPM is an invaluable sign of growing self-reliance. There are still cases of delay and unevenness in Government responsiveness, but this is not surprising in a public administration that still lacks essential capacity, and is often burdened by donor demands and frequent innovation and change. However, it does underline the fact that poverty reduction will proceed only at the pace at which the Government can respond. Major obstacles still exist at lower staff levels and within local government. There are still many aspects of the poverty reduction program which are politically sensitive, especially concerning resource allocation, and the Government often struggles with the balance among factors that are not always mutually supportive, -- moving the reform program forward, acting on controversial issues like corruption, building political will, increasing the level of Parliamentary and civil society involvement in the policy dialogue driving poverty reduction, and maintaining domestic stability. The ongoing
problems in the north and on Uganda’s borders, are clearly additional complicating factors. The way the Government is able to manage these often conflicting factors will come under increasing pressure if the next phase of the PEAP and its accompanying PRSCs are to make the key shifts needed in Uganda’s development strategy. This shift of vision will require a wide-ranging dialogue involving the participation of all the main stakeholders engaged in the process of implementation. This will be helped if the Government can take a clearer lead in the production of both policy and governance matrices that summarize the essence of the PEAP. Donors should focus on reinforcing the Government’s efforts rather than being seen as the main drivers behind especially more controversial policy issues.

b) **Service Delivery.** There is little doubt that PRSC-supported programs have increased the amount, the range and some aspects of quality of the services delivered, including by and large those delivered to the poor. Major resources have been channeled to primary education, basic health, water and sanitation and, more recently, agricultural services. Results are evident at the input level (resources allocated, enrolment, patient visits, vaccinations administered, etc.) The PEAP and PRSC processes have helped focus planning processes on outputs and outcomes rather than simply on inputs, and there is a better grasp, at least among senior Government management and technical staff about the desired outputs and outcomes that are being pursued through greater inputs. These planning documents show an increased depth in analysis and understanding of the key issues. The PRSC-supported pursuit of the PEAP goals has thus had a noticeable impact on the ways of thinking about service delivery.

c) **Poverty Reduction Model.** The first PRSC for Uganda clearly chose to focus on the human development dimensions of poverty that are improved through more and better education, health, and access to water and sanitation. The choice was to pay less attention to those parts of Uganda’s second PEAP that stressed income generation, although both the first as well as the two subsequent PRSCs did support continued macroeconomic stability, better allocation of public resources, improved governance and some aspects of agriculture, all of which are needed to achieve rapid and sustained economic growth. With hindsight, given the increase in headcount poverty between 1999/2000 and 2002/03, the focus of PRSCs might usefully have been somewhat different. It is true that the World Bank CAS also had in place parallel projects that dealt with issues such as additional power generation, support to the 10-year investment plan for the development of Uganda’s road network. It is not clear, however, that the integration of these with the objectives of the PRSCs was pursued aggressively. Growth was mostly left to other parts of the Uganda Country Assistance Strategy even though one of the stated outcomes by which PRSCs were to be measured was “(income) poverty reduction”, even though the main objective was improved service delivery. While overall macroeconomic stability and improved human development services are necessary conditions for long term poverty reduction, they have been shown to be insufficient to make a significant dent in headcount poverty figures in the shorter term. The lives of many of the poor have undoubtedly improved through access to more and better services, but the percentage of those suffering income poverty has increased in the last three years. The third
PEAP, now under preparation, will likely attempt to redress this imbalance. The main challenges will be how to raise the rate of growth to the 7% per annum range; how to retarget the growth pattern to be more pro-poor; how to tackle sharply rising poverty in the East and continued high poverty in the North; what to do about the high population growth rate and high maternal and infant mortality rates; what to do about the emerging pattern of increasing inequalities; and what kinds of interventions can stimulate job growth, increase incomes and develop new markets. Sharply increased investments in infrastructure (roads, power) are part of the answer but in general the “growth” part of Uganda’s Poverty Reduction Model is much less developed than its “service delivery” (human development) part.

d) Government Processes and Systems. The PRSC process has helped strengthen government processes. There has been progress in cross-cutting areas such as procurement, financial management, audit, law and order, and with them, some increase in transparency and accountability, and some progress in tackling corruption. However, to achieve significant and lasting reform in these areas, the efforts will have to be exerted over many years, because the interests and incentives that thrive on lack of transparency will continue to be present, and it may well prove to be easier to re-corrupt the system than to maintain the reforms achieved so far. The revitalization of the faltering effort to improve public administration should be seen as another step in the process that began more than a decade ago, and still has much to achieve. Government is still overwhelmed by systems and procedures, as well as constant innovations, and there is still an inadequate understanding of the difference between the essential and the desirable. Until this understanding is applied, Government cannot achieve the lean and effective profile needed for rapid interventions and response, rapid understanding of the impact of interventions, and the flexibility to adapt to different and changing circumstances. Priority should be given to nurturing well-functioning Sector Working Groups, reinforcing essential cross-sectoral collaboration, and fostering the capacity to analyze areas in which projects can best complement the budget/import support operations. There is also urgent capacity building required at the delivery end of line ministries, and at both planning and implementation levels of local government. Without that, many well intended policies and reforms will be stalled or diluted by the time the benefits reach the poor. While each PRSC has a substantial annex on the institution building issues and what needs to be done, the necessary actions are typically not costed out (and hence under-funded or not-at-all funded in the budget). Capacity building needs to be better integrated into the budget and it may be necessary to develop some carefully targeted complementary capacity building projects, within the context of the relevant Sector Working Groups (and hence sector strategies) and fitted into the MTEF. The next PRSC should focus special attention on building capacity within OPM to ensure that that office can effectively oversee the PEAP/PRSC process.

e) Predictability of Resource Flows. The PRSC process has improved the predictability of resource flows at the aggregate level. There were, however, some problems with the flows at the sub-national level that need to be addressed. These were not due to
the failure of PRSCs, but rather due to lapses in implementation. These are issues such as disruptive mid-year supplementary budget requests, failure to release resources budgeted for seasonally sensitive needs in agriculture in a timelyst way, as well as not regularizing agreed budget releases to local governments.

f) **Transaction Costs** are viewed to have declined. The Government, while complaining about the size of PRSC missions and the reform agenda that leaves little room for any down time, has made it clear that the budget support approach is by far the preferable way of proceeding. On the World Bank side there is some evidence that resources transferred per dollar of preparation cost are considerably higher for the PRSC than for regular Bank investment projects. In the next stage attention should focus on improving the impact of the transferred resources rather than worrying too much about the costs of transfer. Well-functioning Sector Working Groups that are inter-connected in the areas in which they need to be collaborating closely are probably the single most important area that needs to be nurtured. They are the place where sector strategies are operationalized, where cross-cutting issues can best be identified and approaches thought through, and where needs for projects that might best complement the budget/import support operations can be examined.

g) **Coordination among Government Ministries and Agencies** is improving. For a while there was a sense in many line ministries that MOFPED, while doing a very competent job, was an inappropriate ministry to coordinate many of the (non-financial) issues across government. The Cabinet, based on proposal for improved coordination arrangements prepared in a cabinet paper, recently approved new coordination arrangements. These will be run from the Office of the Prime Minister at the overall policy level, although for some time MOFPED will clearly have to be relied on for its expertise to support the work of the new arrangements. A promising start under the new arrangements has been made during the preparation of PRSC 4. The main test will be how the new arrangements deal with the many and complex cross-cutting issues and the strain of sticking to the agreed timelines.

h) **Donor Coordination.** The PRSCs have helped streamline and coordinate donor support, and increased resource flows from donors have shifted progressively into direct budget support. The main locus for local PRSC donor activities has been the Sector Working Groups, supplemented by special meetings arranged during PRSC missions. Improved coordination is evident in the exchanges of donor assistance strategies and key reports, feedback to the World Bank, and continuous informal exchanges, especially important when they involve Government representatives to reinforce the sense of partnership and transparency. While there are disagreements among donors, the underlying atmosphere is one of collaboration, marked by a “can do” attitude. A good deal of this improved atmosphere of collaboration among the development partners (donors and GoU) has been summarized in the Partnership Principles (see Annexes 1 and 2).

i) **Aid Modalities.** Overall, the direct budget support provided by the PRSC is an invaluable approach that has done much to sharpen the focus of the Government’s
poverty reduction program. However, it is also clear that providing aid to Uganda only through budget support is not the best approach, even if it is the instrument of choice for the Government. There are always issues (typically in capacity and institution building, but also in major infrastructure investments in areas such as electric power and roads) that can arguably better be handled in the project mode. It is critical, however, that this be done in the context of a sector strategy, be transparent to all actors (donors as well as government), that such projects be well justified, and that they be on budget.

j) Implementation. However, the practical implementation has lagged somewhat. More needs to be done to improve both the efficiency and equity of resource utilization, so that more of these resources can reach poor communities and remote areas. Part of this improvement needs to take place at a local level, where a combination of lack of capacity and skills, as well as corruption and local influence continues to divert poverty funds from their prime purpose. This local capacity building is only partly a question of training; it is also a matter of oversight and counter-balancing power. Therefore, an essential part of improving the actual delivery of PEAP and PRSC goals involves the greater day-to-day participation of community groups, civic organizations, and local NGOs. These groups at times feel that only lip-service is being paid to them by Government and donors, and that they have yet to become genuine partners in the policy debate. As long as they feel this way, it is unlikely that they will play the full partnership role on which poverty reduction is dependent. Both Government and donors are therefore urged to examine the authenticity of efforts to involve civil society, and to listen carefully to the feedback received from their organizations and representatives.

k) Aid Dependency and Problems in Absorptive Capacity. One concern about the current increased aid flows (from both budget and project support) is the issue of high aid dependency. Despite the benefits of predictable budget resources, there are already clear signs of an imbalance between donor aid and the mobilization of domestic resources. It is hard to refute the argument that aid flows of the size Uganda is receiving, undermine incentives to increase domestic revenues. Donors insist that as long as Uganda “stays the course”, there is little danger of sudden cuts in aid flows. However, such reassurances can never be definitive; and the Government has to weigh the dangers that such cuts or delays would present to a poverty reduction program whose results are still fragile and cannot easily adjust to sudden loss of resources. High aid flows are also encountering problems in absorptive capacity, as can be inferred from the increase in unit labor costs in the non-traded goods sectors. Uganda’s largely agrarian economy does not present opportunities for a rapid replacement of aid flows with domestic resources. However, expanding the domestic revenue base should be an objective, and improved projections should be carried out to produce a reasonable expectation of increases in the potential for increasing domestic resource mobilization. These projections should be used to calibrate future patterns of donor aid, and will require agreements among donors both in terms of levels of PRSC support, as well as an agreed envelope of project loans and grants (within a clear set of priority criteria to prevent “the pushing of projects”).
l) **Political Issues, Conditionality, and Graduated Response.** There is persistent worry that the PRSC instrument is so large that it cannot be used credibly as pressure to make the Government stick to all its promises with respect to the reform program (whether on the economic or governance side). The entire program can in effect be held hostage to one important action or area that is not being attended to by the Government to the satisfaction of some of the donors. As was argued in the text, this issue is probably overstated. The donor approach is already graduated in a number of ways. Moreover, there is nothing standing in the way of making the graduation more formal. One could envisage a core program that depends on some basic relatively straight-forward actions (continued macro-stability and progress in a number of sectoral areas). This core program would receive funding regardless of other developments over some agreed period (e.g. the three-year period of the current MTEF). Above the core, there might be several additional amounts of support “on offer” that would depend on actions that are increasingly more difficult, presumably because of their more political nature.

m) **Scope of PRSCs.** The current approach to deal with the ever expanding scope of the PRSCs has probably been right; namely keeping the focus of the PRSC on cross-cutting issues, packaging the sector reforms (education, health, water, etc.) increasingly into “one liners” with the series of sector undertakings being pursued and monitored through sector working groups in parallel with the PRSC, and develop well-targeted complementary (technical assistance/capacity building) projects where needed. This has helped control some of the growth of the Policy Matrix, although each “one liner” was underpinned by a rather extensive list of undertakings (see Annex 3 for the case of education or PRSC 4 document for several other sectors). However, there is a danger that the “one liner” mode may just be helping to hide the fact that the scope of the PRSCs may have reached its limits. It may be time to consider supporting some sectors through separate operations.

n) **Results Orientation.** During the stock-taking there were repeated calls for a greater results-orientation. There is a wide-spread sense that while there has been good progress on a number of input fronts (overall budget under control, sector ceilings in place, teachers and health workers being hiring, more students in schools, etc.), the issues of better outcomes remains to be solved. Operational efficiency is thought to be low and much remains to be done in this area, starting with a better connect between policy actions and monitorable indicators in the PRSC matrices themselves (so-called Schedules 2 and 3 of the PRSCs 1-3). This is much easier said than done due to the familiar problems of attribution. Nevertheless, this has now clearly become an important issue. Money is being pumped into various agreed areas, but more often than not it increases the quantity and/or cost of inputs, rather than resulting in better outputs and outcomes. PRSC 4, now under preparation, has already taken on this challenge and pays considerably more attention to results and how “success” will be measured (one of the successes clearly being a coherent, implementable reform program). The incipient trend of weaving monitoring and evaluation into the fabric of results orientation should continue to be strengthened in the future.
o) *Annual vs. Multi-Year PRSCs.* While the argument for multi-year PRSCs is conceptually attractive (see paragraph 76), the multi-year instrument implicitly assumes some level of predictability. In the case of Uganda, unexpected events delayed presentation of each of the PRSCs to the World Bank Board by some months. The graduated response approach combined with continued annual PRSCs may, in the case of Uganda, still be the best way forward for some time to come.

p) *PRSC Coordination and Management.* On the Government side the OPM needs resources to strengthen its ability to competently review and pro-actively coordinate the reform program, and especially the parts of the program that need substantial collaboration among various ministries and agencies. On the World Bank side it is time to locate the Task Manager of the PRSC in the field, supported by a small locally-based Core Team. There are simply too many day-to-day issues that need attention, for the PRSCs to be managed from Washington DC.
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Annex 1 Partnership Principles between GoU and its Development Partners

Partnership Principles between Government of Uganda and its Development Partners

SEPTEMBER 2003

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
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 fora in the budget process (budget workshops, sector meetings, Public Expenditure Reviews, etc). Individual donors should not attempt to influence budget allocations outside these fora 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:¹

   1. General budget support
   2. Budget support earmarked to the Poverty Action Fund
   3. Sector budget support
   4. Project aid

¹ 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 partners 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 SWG should endeavor 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.
38. The sharing of bilateral reports can preclude repetitive missions. Sector working groups and the annual review should establish a common agenda of analytical work.

**Section Eight: Consultative Group Meeting (CG)**

39. The CG should be linked to the PEAP and NEPAD processes. CGs will involve both formal and informal sessions.

40. The role of the formal CG is to review progress in major areas (e.g. PEAP and broader reforms) and to map a way forward.

41. Civil society should be invited to attend the formal session as observers.

42. The role of the informal CG is to discuss sectoral/thematic concerns and address all issues likely to be raised in formal session. The informal session will precede the formal session. The main civil society / private sector input is in the informal session.
Annex 2. Calendar of Major Processes and Missions

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<thead>
<tr>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
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<tbody>
<tr>
<td>Budget/MTEF</td>
<td>Inter-ministerial meetings</td>
<td>MTEF Preparation</td>
<td>Budget</td>
<td></td>
<td></td>
<td></td>
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<td>Budget Workshop And guidelines</td>
<td>BFPs preparation</td>
<td></td>
<td></td>
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<td>PER</td>
<td>Background/Sector Studies</td>
<td>PER Review</td>
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<td>Consultation on scope of work</td>
<td>1. ToRs for background studies 2. External resource mobilisation for budget guidelines</td>
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<td>Background/Sector Studies</td>
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<td>PRS and Poverty Monitoring</td>
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<td>PMAU Review</td>
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<td>PRSC</td>
<td>Appraisal</td>
<td>Mission</td>
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<td></td>
<td></td>
<td>Pre-appraisal</td>
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<td>Consultative Group</td>
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<td>Agreement on themes</td>
<td>Preparation of background papers</td>
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<td>Joint Sector Reviews</td>
<td>Education, health and water joint reviews</td>
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<td>Water Joint Reviews</td>
<td>Education &amp; Health Joint Reviews</td>
<td>Public Sector Reform Joint Review</td>
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Annex 3 Education Sector Undertakings

EDUCATION SECTOR UNDERTAKINGS

1. The Government has satisfactorily implemented the following undertakings agreed in the education sector review of April 2002 and confirmed by the October 2002 review:

2. Financial commitment: Budget and releases in line with the Government of Uganda guidelines maintaining a minimum of 31 percent of recurrent discretionary expenditure for education. At least 65 percent of the total education sector budget is allocated to primary education.

3. Public Expenditure Management:
   (b) A tracking study on teachers’ recruitment, deployment and payroll management, carried out by the October 2002 Education Sector Review.
   (c) Preparations for a tracking study in an area of mutual concern (now agreed to be on value for money on the school facilities grant).

4. Quality Enhancement:
   (a) Pupil-teacher ratio calculated nationally and by district: 54:1
   (d) Pupil-core textbook ratio calculated nationally and by district: --
   (e) Pupil-classroom ratio calculated nationally and by district: 92:1 (The lower ratio was as a result of redefinition of classrooms to only include permanent classrooms. The review agreed that the target had been achieved).

5. Outcome (equitable quality):
   (a) Share of appropriate age range of girls and boys in P7 nationally and by district monitored.
   (b) The learning achievements of primary school pupils as assessed by National Assessment of Progress in Education (NAPE), Southern Africa Consortium for Monitoring Education Quality (SACMEQ) and Monitoring Learning Achievement (MLA) in their reports (for April 2003).
   (c) Net enrollment ratios, particularly for the most disadvantaged districts monitored.
   (d) Primary completion rates monitored.


7. Teacher recruitment: Mechanisms for monitoring the share of filled positions strengthened and the action plan for increasing the number of teachers on the payroll with particular attention to the ten districts with the largest establishment gaps implemented including:
   (a) Reworking the establishment formula and aligning this to the national annual target for pupil-teacher ratio by 31 May 2002;
(b) Harmonization of staff establishment ceilings for all districts by 31 July 2002;  
(c) Reappraising target districts in the light of harmonized establishment ceilings by 31 August, 2002;  
(d) Revising action plan for focus on new target districts and implementing from early September 2002;  
(e) Proposing future targets for teacher recruitment to the October 2002 education sector review;  
(f) Presenting a report on progress to the October 2002 education sector review.  

8. **Monitoring and evaluation**: 2002 Education Management Information System data, in which a registry of private schools has been incorporated, collected, entered, analyzed, verified and resulting statistics reported on at the October 2002 education sector review. The School Census 2002 will capture an increasing proportion of secondary schools and post–primary education and training institutions. Information on complementary primary education centers will be collected and included in the Education Statistical Abstract.  

9. **Post-Primary Education and Training**: A draft policy and costed framework for expansion of post-primary education and training which has been discussed with a range of stakeholders be presented to the October 2002 review for its comments, endorsement and future development.
Annex 4 Principles for Determining Prior Actions

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. 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 fulfills 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; (ii) 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.