I. Introduction and Context

A. Country Context

Three decades of political and macroeconomic stability, pro-market reforms and post-conflict rebound in Uganda have generated significant economic growth and poverty reduction. Economic activity expanded at an average annual rate of about 7 percent between 1987 and 2010 and the share of households living below USD 1.99 PPP a day (the international poverty line), almost halved from 66.2 percent in 2002/03 to 34.6 percent in 2012/13. This development was mainly on account of higher agricultural incomes.¹

Growth, however has slowed in recent years, which in turn has reduced the pace of poverty reduction. The average annual rate of economic growth was 4.5 percent in the five-year period to FY 2015/16. With slower growth, the pace of poverty reduction decelerated from 1.6 percentage points per annum in the high growth period to 0.9 percentage points per annum more recently.

The National Development Plan II (NDP II) outlines a development approach emphasizing expanding economic infrastructure as a key driver of inclusive growth. Uganda has large deposits of oil in the Albertine Region and elsewhere, and significant investments in the enabling infrastructure for oil extraction are planned or already ongoing. In addition, the NDP II emphasizes economic infrastructure

to boost other sectors of the economy, which will be critical to improve economic diversification and avoid Dutch disease effects.

The successful execution of the NDP II will largely depend on the efficiency and integrity of the public sector. Currently, there are considerable implementation gaps. Delays, cancellations, and unsuccessful implementation have resulted in resource waste and a potential for improved value for money. Lack of capacity is only one factor that explains this outcome. Lack of proper incentives, drive for results, insufficient transparency and weak accountability are key contributing factors. The GoU is keen to close this implementation gap and the implementation of a new generation of public sector management reforms.

B. Sectoral and Institutional Context of the Program

Ongoing governance reforms in Uganda have contributed to strengthening of policy, legislative and institutional frameworks for the public sector. The GoU has been leading reforms targeting public sector decentralization, anti-corruption, civil service, public finance and procurement reforms since the early 1990s. In the last decade, an impressive body of laws and regulations have been enacted to bolster the governance system. These laws have been complemented by the implementation of various ICT systems including an Integrated Financial Management Information System (IFMIS) and an Integrated Personnel and Payroll System (IPPS) among others.

At the same time, key dimensions of the governance environment have been declining. The Public Expenditure and Financial Accountability Assessment (PEFA) of 2012 showed only small improvement compared to the 2008 assessment and some deterioration in areas such as budget credibility and budget execution controls (particularly payroll, procurement compliance and legislative scrutiny of external audit reports). The Auditor General’s annual reports regularly identify weak compliance with PFM regulations, resulting in avoidable or wasteful expenditure, build-up of arrears, inadequate accountability and, in some cases, the risk of fraud or misappropriation. Worldwide Governance Indicators suggest that Government effectiveness is stagnating at an intermediate level and that control of corruption has worsened over the past decade.

After decades of reforms addressing the formal governance framework, the GoU and the World Bank share an intention to engage in a new generation of governance reforms aimed at narrowing the implementation gap. Key areas of attention center on public investment management, public procurement, aspects of core financial management and human resource management:

- Improving public investment management is key to implementing Uganda’s development strategy as promulgated in the NDP II.
- Improving the efficiency and effectiveness of public procurement is an integral part of improving value of money of public investments as well as for enabling service delivery and is therefore highly relevant to achieving NDP II.
- Significant progress has been made on core financial management processes in Uganda but challenges are still significant.
- The civil service plays a critical role in effective service delivery and is one of the areas most often mentioned by Ugandan officials when discussing limitations of public sector performance in the country.

GoU recognizes that the comprehensive governance reforms implemented in the last two decades will have to be deepened and maybe adjusted to remove bottlenecks to service delivery. There is an appetite to enter into a partnership that supports government’s ongoing public sector reform program but
also deepens it by focusing on implementation in line MDAs and enhancing impacts. Following a period of expanding access to services and achieving significant poverty reduction, Government seeks to improve results in particular in managing investments, quality of service delivery, greater ease of doing business, and greater CSO involvement in implementing and monitoring Government programs (NRM Manifesto 2016-21). These changes are seen as critical to achieve the transformation to a middle-income country.

The proposed operation will take steps down the results chain towards improved service delivery and public investments but will require complimentary reform efforts to transform front line service delivery and public investments. For example, in the area of public investment management, improved preparation and selection of investment projects will solve one part of the problem. Issues around implementation through contract management and ex post control will remain. In the area of e-GP, the systems will solve some integrity and transparency issues. However, collusion and market failures will still impact price and quality. In the area of cash management, clearer criteria for prioritization of cash in case of shortfalls will improve predictability but will not solve the overall issue of cash shortages. The operation will be designed to make meaningful and real steps towards narrowing the implementation gap while acknowledging that further efforts will be needed in parallel or subsequently to close the gap.

C. Relationship to CPS/CPF

The proposed Program is aligned with the first strategic focus of the Country Partnership Framework (CPF) of FY16-21. The CPF focuses on three strategic areas: (i) strengthening governance, accountability, and service delivery; (ii) raising income in rural areas; and (iii) boosting inclusive growth in urban areas. The proposed PforR features is a cornerstone operation in the first strategic focus area. Drawing on the Systematic Country Diagnostic (2015), the CPF indicated that the slow implementation that has weighed down Uganda’s development agenda for years could hamper achievement of further progress in Uganda. The challenges abound in procurement and financial management, project design, and oversight of project management and compliance with safeguard policies, combined with weak accountability across the Government. The proposed PforR will focus on reforms in PFM, procurement, public investment (PIM), and HR management, to support the government to achieve one of its key strategic goals as embedded in the current CPF.

II. Program Development Objective(s)

A. Program Development Objective

The draft proposed project development objective is as follows: To narrow the governance implementation gap at national level in public investment management, public procurement, human resource management and cash management for service delivery and public investment project expenditures.

B. Key Program Results

The program result areas have been identified within the already established strategic framework for public sector reforms in Uganda through a consultative process. Taking this framework as a point of departure, a series of “bilateral” meetings with MDAs in Kampala was organized to identify which subset of the strategic framework is of most pressing concern as regards the implementation gap. These consultations formed the basis for a subsequent series of workshops and working group meetings with
joint participation by Ministry of Finance, Planning and Economic Development (MoFPED), the PPDA, the Ministry of Civil Service, the Office of the Prime Minister (OPM), selected MDAs and Districts and other stakeholders over the period December 2016 to February 2017. Two workshops and about 10 working group meetings were organized. The workshops and working groups set out to identify key areas of focus of a possible PforR and confirm objectives, steps needed to achieve these objectives, challenges, stakeholders, supporting ICT systems and possible DLIs etc. The following areas of the strategic framework – the government’s program – has been identified:

- **Strengthening public investment management** (PIM) will enhance the GoU’s capacity for preparation, selection and implementation of public investment projects to yield highest possible returns on investments.

- **Transparent, timely and effective procurement and contract management** will significantly reduce delays at bidding, and in contract management. The existing efficiency gaps in the procurement system affect service delivery. The proposed program aims to help GoU to establish a well-functioning procurement system which will achieve efficient and transparent service delivery ensuring value for money in public procurement;

- **Comprehensive, strengthened and integrated financial management systems** (IFMIS) will result in effective and efficient execution of the budget so that releases to MDAs and LGs are utilized in accordance with GoU’s intentions. Enhanced institutional capacity will significantly improve resource flows for service delivery and that systems are rolled out (including to all local governments and integrated; and

- **Strengthened Human Resource Management** (HRM) where there are clear opportunities for the program to support and reinforce the ongoing government efforts to establish a systems which improve the performance of service delivery staff and their managers which will strengthen the service delivery chain.

In addition to supporting the implementation of systems by institutions - MoFPED, MoPS and PPDA (horizontal), the design will also consider working with two sectors (e.g. Health and Education) working through implementation issues for public investments and service delivery staffing in those sectors.

The identification of the areas is preliminary at this stage and will be further developed during project preparation in partnership with GoU technical teams.

**III. Program Description**

The proposed operation is anchored in Uganda’s strategic framework for public sector reform. The framework is founded in the NDP II and includes the Uganda PFM Reform Strategy and the PPDA Strategic Plan the PIM Reform Road Map as well as the Policy Paper on the Transformation of the Uganda Public Service. An overview of the Government Programme is provided below.

**Figure 1. Overview of the Government Program**
The vision of Uganda’s financial management reforms is to “have excellent PFM systems for the control and management of public resources”. The goal is to “strengthen Public Financial Management at all levels of government to ensure efficient, effective, and accountable use of public resources as a basis for improved service delivery”. The purpose is to “To improve effectiveness, efficiency and attain value for money in the control and management of public resources”. Key achievements under the program have been discussed earlier in this Concept Note. Key challenges in the program (acknowledged in the 2014 PFM Reform Strategy) is “compliance with set rules and regulations, as well as budget credibility and control”. Currently, the program is detailed in a number of specific strategies which in practice anchor reform efforts in the implementing agencies:

- The Uganda Public Financial Management (PFM) Reform Strategy, was launched in 2014 covering fiscal years 2014 –2018. The strategy serves as the de facto reform strategy for practitioners in the MoFPED and outlines an abstract reform philosophy as well as concrete reform action steps and a M&E framework. The proposed PforR would support the parts of the strategy focusing on budget executions such as core financial management processes and IFMIS.

- The PPDA Strategic Plan 2014/15-2018/19 is anchoring Ugandas ambitious procurement reform agenda and sets out strategic objectives and activities anchored in a strong M&E framework. The proposed PforR would support the parts of the Strategic Plan that centers on capacity building and implementation of e-GP,

- An Action Plan has been derived from the Diagnostic of Public Investment Management in Uganda which was completed in 2016. The PIM diagnostic was undertaken as a follow-up to the recommendations of the NDP I mid-term review and a World Bank PER concluded in 2010. These highlighted gaps along the project cycle and concluded that Uganda’s PIM system has a number of good practice elements but that there is room for improvement. Areas of required
focus include the both the preparation of projects and their execution. Government has started on the process of implementing the recommendations from the diagnostic. The proposed PforR would support the parts of the Action Plan Strategic Plan that centers on capacity building and implementation of e-GP,

**The Policy Paper on the Transformation of the Uganda Public Service notes key achievements as well as a need for public sector transformation and continuous reforms.** The paper spans the period 2011 to 2017, and it is expected to be updated prior to the PforR’s approval. Key achievements of the Public service reform program so far include rightsizing the public service, pay reform, personnel establishment control, improved records management, introduction of Results Oriented Management, and capacity building. A particular achievement has been the substantial expansion of universal primary and secondary education. Key challenges include that Uganda’s public service is still perceived as “slow and unresponsive to the needs of service users, particularly the citizens and the investors’. Corruption is perceived as widespread, consistent with a worsening trend diagnosed by the WGI. The aim of the Government is to pursue areas of rapid progress (transformation) as well as longer term reform and strengthening of the public service. The proposed PforR would support the parts of the Strategic Plan that aims at strengthening performance management and accountability to citizens.

**The proposed PforR will support a sub-set of the Government Program.** The exact program boundaries will be developed during project preparation

**IV. Initial Environmental and Social Screening**

The program aims at strengthening business processes and ICT infrastructure that support these processes. This aspect of the operation is expected to have no direct social safeguards issues. Environmental safeguards for this part of the program is expected to be limited to management of e-waste.

Public investment management is proposed to be included in the program. The scope of the program, including expenditure program, can be limited to revision of business processes etc. as for other parts of the program. However, one option could be to also include expenditures for actual physical investments improved through the Program (subject to eligibility provisions in the PforR guidelines which excludes Category “A” activities). This would require a more extensive safeguards assessment.

In accordance with OP/BP9.00, the Bank will conduct an Environment and Social Systems Assessment (ESSA). The ESSA focuses on institutional capacity to manage environmental and social risks, and will review existing regulations and policies, institutional capacity, and the effectiveness of implementation in practice. The Assessment will cover the implementing agencies including the National Treasury, the Public Procurement Oversight Authority (PPOA) and Office of the Accountant General (OAG). Depending on how public investment management systems are supported, including through the definition of DLIs and decision on the boundaries of the expenditure framework, the assessment will be expanded to sector MDAs.

**A draft ESSA Report is expected by August 2017.** It will be followed by consultations with key stakeholders, and disclosure of the first draft prior to appraisal. Further consultations will be held during appraisal, and the final report made public after Appraisal.

V. Tentative financing
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