**I. Country Context**

1. **Uganda has performed well in terms of economic growth and poverty reduction over the last decades, despite a recent slowdown.** Uganda is a low-income country with GDP per capita of US$550 (2013). GDP growth has averaged more than 6 percent for the past 20 years. This growth can be attributed to macroeconomic stability, post-conflict rebound and pro-market reforms. This growth benefitted the poorest households, and during the last decade, Uganda managed to reduce the proportion of households living under US$1.25 a day PPP faster than any other country in sub-Saharan Africa. More recently the rate of economic expansion decelerated from an average of 7.6 percent a year during FY2006-10 to 5.5 percent from FY2011-15 because of external factors, inconsistent fiscal and monetary policies, and a slowdown in the efforts by the government to implement further reforms and low domestic revenue collection, which have created fiscal constraints for the government. These constraints might ease when Uganda begins exporting oil, but the timing of this is uncertain.

2. **Concerns remain about economic mobility and social development, and a third of the population still lives below the poverty line.** Using the international extreme poverty line of $1.25, the proportion of households living in poverty fell from 68.1 to 33.2 percent during 1993 to 2013. With respect to the national poverty line, the incidence of poverty declined from 56.4 percent in 1993 to 19.5 percent in 2013. Despite this large improvement, there are a number of significant concerns. Uganda has not achieved universal access to reproductive health, nor reached its MDG targets for maternal health and primary education. Forty-three percent of Ugandans are live in non-poor, but vulnerable, to fall back into poverty, defined as households defined as living below twice the national poverty line. For every three Ugandans who get out of poverty, two fall back in. Life expectancy is still low at 51 years and the fertility rate is among
the highest in the world at 5.7 children per woman in 2015.

3. **There are large and increasing regional variations in poverty with most poor households concentrated in the north and the east.** In 2006, approximately 60 percent of the nation’s poor lived in the northern and eastern parts of the country. Seven years later, this proportion increased to 84 percent. Progress, as captured by increasing consumption levels, has been much faster in the western and southern regions, which benefited from an economic boom in Kampala and the surge in regional trade and the global markets. The northern and eastern regions further suffer from significant land degradation and vulnerability to climate change which exacerbates poverty.

4. **Public spending on social services such as education, health, is low, even when compared with other low income countries (LICs).** The share of education in total public spending declined from 17 percent in 2007 to 15 percent in 2013, compared to the average of 16.6 percent for low-income countries (LICs) and 16.7 percent for Sub-Saharan Africa (SSA) countries. Over the same period, the share of education as a percent of GDP fell from 3.4 percent to 2.9 percent, compared to 4.2 percent for the LICs and 4.0 percent for SSA countries. Health expenditure accounted for only 24 percent of total public spending, compared to the average spent in the LICs of 37 percent and the SSA countries of 44 percent. Overall public expenditure on health was 1.8 percent of GDP in 2014, among the lowest in SSA countries. Moreover, it has declined from 3.3 percent of GDP in 2009 to 2.2 percent 2013. Declining spending in education has resulted in worsening education outcomes, and while health outcomes have improved in Uganda, they still remain far from international standards (see 2015 Systematic Country Diagnostic for further details).

5. **The proposed Uganda Intergovernmental Fiscal Transfer Program-for-Results (UgIFT) has high strategic relevance because it will address the binding constraint of low levels of funding for social services.** The UgIFT Program is based on a premise that improved local government financing of education and health services is a necessary condition for improved outcomes. But it needs to be complemented with sustained policy improvements and required investments in health and education sectors. Funding levels for social services in most local governments (LGs) are too low to achieve improvements in outcomes. This binding constraint has been identified by the Systematic Country Diagnostic, prioritized in the Country Partnership Framework (CPF) – 2016-2021, and highlighted in the 2009 World Development Report (WDR) on the Reshaping Economic Geography. Specifically, the Program addresses three constraints that have a major adverse impact on service delivery in a large number of LGs (districts and municipalities): i) the large-scale horizontal inequities in the per capita amounts of transfers received by the districts; ii) the inadequate level of per capita social expenditures in poorer districts; and iii) the poor management of resources by local governments.

II. **Sectoral (or multi-sectoral) and Institutional Context**

6. **This section sets out the core justification of an operation focused on addressing the size, distributional impact and efficient management of the fiscal transfers for local government health and education services, in the context of the evolution of decentralization of service delivery in Uganda.** In summary:
The bulk of local government service delivery is funded via conditional transfers earmarked to sectors which, in real per capita terms, have declined significantly from peak years in the early 2000s.

Allocations to these transfers are distributed inequitably across local governments, which negatively impacts on the less well funded to deliver health and education services.

The management of resources for local service delivery has been undermined by low levels of funding for local government administrations, the complexity of administering a large number of earmarked transfers, institutional capacity constraints and a dearth of positive incentives for local governments to improve performance.

7. Whilst there may be other factors beyond the size, distributional impact, and judicious management of fiscal transfers affecting health and education outcomes, these issues represent binding constraints to improving local service delivery in Uganda. The GoU is committed to reversing these trends and to fixing the fiscal transfer system overall, but it needs additional resources and institutional strengthening to implement its planned reforms and for those reforms to impact on service delivery.

**Evolution of the Devolved Education and Health Service Delivery**

8. The current framework for local government education and health service delivery was introduced in the mid-1990s. Participatory local democracy was a key political priority of the NRM government from when it came to power in 1986. The responsibility of local governments to delivery basic health and education were embedded in the 1995 constitution and the 1997 Local Government Act, which established a system which was highly decentralized along political, administrative and fiscal lines. District and Municipal Local Governments were responsible for basic healthcare services and delivery of primary, secondary education and skills development. Alongside this, an agenda to expand service delivery emerged, including the introduction of free Universal Primary Education in 1997 and later free basic healthcare in 2000. Box 1 provides details.

**Box 1: The institutional framework for decentralised health and education services**

Higher local governments in Uganda include districts and municipalities and are responsible for delivering basic education and health services as well as other services including water and sanitation, rural roads, agriculture, environment. In Financial Year 2017/18 there will be 162 higher local governments, made up of 121 districts and 41 municipalities.

In health and education, local government service delivery is managed and delivered as follows:

- **Basic education** services are delivered through a network of primary and secondary and technical, vocational education and training institutions. The district/municipal education department oversees and monitors these services. The department includes inspectors responsible for inspecting all public and private educational establishments.
- **Basic health** services are delivered through a network of health facilities, which include Health Centre IVs, which are headed by a doctor and HCIIIs, which are headed
by a nurse. These provide outpatient and basic inpatient services. HCIIs, which are small dispensaries, provide outpatient services. In addition, some Districts run general hospitals. The district/municipal health department oversees this network of health facilities and also carries out public health activities.

Higher LGs are also responsible for appointing, promoting and transferring health workers and primary teachers (secondary and BTVET teachers are managed centrally) and for managing the associated payrolls. Decision-making by LGs involves substantial citizen participation. In particular, LGs carry out participatory planning to involve relevant stakeholders. Moreover, LGs have promoted sector committees (health, education, and so on) with an appropriate gender balance at each of the different levels of the local government system.

Figure 1. Local Government Institutional Framework for Education and Health Service Delivery

Sector ministries are responsible for sectoral policy and oversight. The Ministry of Finance, Planning and Economic Development (MoFPED), and the Local Government Finance Commission (LGFC) are responsible for the coordination of resource allocation and management of fiscal transfers. The Ministry of Local Government (MoLG) is responsible for the decentralization policy, whilst the Office of the Prime Minister (OPM) is responsible for coordinating the monitoring and evaluation of central and local government programs. The ministries of health and education are responsible for policy, guidance and oversight of local government service delivery.

9. Despite the highly decentralized framework, the expansion of funding for basic service delivery was channeled as conditional transfers instead of unconditional grants. These earmarked grants were expanded rapidly from 1998 fueled by HIPC debt relief and donor budget support. MoFPED wanted to demonstrate, and donor partners wanted to see the impact of this additional funding on allocations to service delivery. Therefore, conditional grants were used to expand allocations, via a mechanisms called the Poverty Action Fund. MoFPED also committed to protecting budget disbursements for conditional grants funded from the PAF, which it has maintained to this day. At the outset in 2007, sectoral conditional grants
represented more than 75 percent of the LGs transfers from national government, and by 2015/16 the share was 85%.

10. **Rapidly the number of conditional grants have proliferated from 10 in 1997/18 to 27 in 2000/01. By 2014/5 there were 46 grants.** The amounts of such transfers to individual districts were based on a mixture of historical practices and allocations, needs-based or ad hoc formulae, input conditions and other haphazard considerations. The system soon became very complex and fragmented. The system provided little discretion, and imposed a significant administrative burden on local governments. Grants also focused on funding service delivery inputs, and not the management of service delivery. The system also reinforced the vertical relations between sector ministries and local government departments. In parallel locally raised revenues were undermined in the 2000 elections and subsequently never recovered. The system that emerged was not in the original spirit of decentralization. Figure 2 presents summary of local governance and financing in Uganda prior to reforms

**Figure 2. Summary of Local Governance and Financing in Uganda Prior to Reforms**

![Diagram showing local governance and financing in Uganda prior to reforms.](Source: MoFPED)

11. **In contrast to the increasingly earmarked financing system an innovative system of performance-linked development grants was rolled out to local governments from 2001.** The Local Government Development Program (LGDP), which used a combination of discretionary development grants linked to performance, proved an effective way of levering improved local government capacity and institutional performance and delivering investments.

12. **The government acknowledged the increasing complexity of the financing system, and developed the Fiscal Decentralization Strategy (FDS) in 2002.** The strategy aimed to streamline the system of transfers and introduce greater local discretion within a common framework of budgeting and reporting for transfers, anchored in the LG budget process. It also aimed to build on the experience of LGDP. However, the introduction of the FDS coincided with a shift in political and budget priorities towards economic infrastructure and away from spending on basic service delivery. This undermined the momentum in implementation of the FDS. The effectiveness of the performance-linked development grants under LGDP and the associated assessment process was diminished.
13. **In the mid-2000s transfers began to decline in real per capita terms, as a consequence of changing government priorities.** Transfers were kept constant in cash terms, and the combination of rapid population growth and inflation gradually eroded their value. Allocations in education were further compressed with the introduction of Universal Secondary Education in 2006. From 2010 wage transfers for teachers and health workers recovered, keeping pace with population growth and inflation, however other allocations continued to be eroded. This has cumulatively resulted in a huge decline in the real value of operational funding for schools and clinics. By 2015/16 non-salary recurrent transfers declined by 51 percent per capita in primary education and 65 percent in health from their peaks in the 2000s (see Figure 3). Development grant allocations also declined significantly in the late 2000s. There were increases in development allocations from 2009/10 for districts in northern Uganda recovering from conflict following peace in the late 1990s. Excluding the latter, development transfers declined in real terms by 89 percent in primary health and sanitation services and 78 percent in primary education.

**Figure 3. Education and Health Transfers over Time**

![Education and Health Transfers over Time](image)

*Source: MoFPED.*

14. **As a result of the increasingly fragmented and ad-hoc system of LG transfers, large horizontal disparities emerged in the value of transfers across local governments over time.** By 2015, public spending per capita on health and per child in education were over 10 times higher in some districts compared to others. In 2014/15, the ratio of average spending (fiscal transfers) on health and education per beneficiary in the ten best funded LGs compared to the ten worst funded LGs, was 7.0 and 7.2 respectively. For some LGs, this skewed allocation meant providing education services at a per capita cost of less than U Sh10,000 (US$3) per year. The horizontal disparities in the size of grant allocations contributed to disparities in health and education outcomes For example, the share of babies delivered in public health facilities varies from 4 to 94 percent, and the number of students per primary school teacher varies from as low as 32 to as many as 100 across districts. About one third of positions in local governments are currently vacant, and the share of vacancies varies a lot across LGs. On the administrative and political side, local councils are elected and exercise a certain degree of authority over local civil service staff. However, districts’ chief administrative officers are appointed by the central government. In addition, the number of local governments has increased significantly over the past decade. The number of districts and municipalities increased from 45 in 1997 to 133 in 2014 and to over 160 in 2016 (see Figure 4). This has led to an increase in the cost of administering...
local service delivery and has spread institutional capacity thinly.

**Figure 4. Disparities in LG funding per beneficiary in 2015/16 (UGX ‘000)**

<table>
<thead>
<tr>
<th>Total transfers in education per child of school going age across LGs</th>
<th>Total transfers for Health per capita across LGs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North</strong></td>
<td><strong>East</strong></td>
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<tr>
<td>0</td>
<td>0</td>
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<tr>
<td>50k</td>
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*Source: MoFPED.*

### III. Program Scope

15. **The GoU InterGovernmental Fiscal Transfers Reform Program (IGFTRP) has five objectives to improve the functioning of the national government’s financing of local government service delivery.** These are:

- Restore *adequacy* and *equity* in allocation of funds for service delivery.
- Shift the focus away from fragmented input-based conditions toward accountability for budgetary allocation decisions, expenditures, and results.
- Increase discretion to enable LGs to deliver services in line with local needs while ensuring that national policies are implemented.
- Allow new national policies to be funded via the transfer system, at the same time avoiding future fragmentation of transfers and reduction in discretion.
- Use the transfer system to provide incentives to improve institutional and service delivery performance.

16. **The IGFTRP has been developed to further the implementation of the GoUs Fiscal Decentralization Strategy (FDS) and Second National Development Plan 2015/16-2019/20 (NDP-II).** The Government Program aims to implement the FDS. The FDS was adopted by Cabinet in 2002 to address concerns about increased fragmentation and reduced discretion in LG financing. The FDS seeks “to strengthen the process of decentralization in Uganda through increasing local governments’ autonomy, widening local participation in decision-making and...”
streamlining fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments in service delivery.” The implementation of the FDS required additional resources. However, the shift of budget priorities towards economic infrastructure since the mid-2000s meant that FDS was implemented only to a limited extent, which in turn made it more difficult for the LGs to fulfill their mandates. The IGFTPR is under the purview of the Minister of Finance, Planning and Economic Development, anchored in the NDP-II and the FDS (approved by the Parliament and the Cabinet, respectively).

17. The FDS agenda was given renewed impetus by Uganda’s Second National Development Plan (NDP-II) 2015/16-2019/20. In response to the declining trends in LG financing, the NDP-II includes objectives to “increase financing and revenue mobilization of [LGs] to match the functions of [LGs]” which commits the government to “redesign the fiscal decentralization architecture to provide for adequate and sustainable local government financing” and “review grants allocation formulae to promote adequacy in financing of decentralized service[s]” (NDP II, p. 235).

18. An interim step prior to the development of the IGRTP, took place in 2015-16, with the consolidation of the earmarked transfers. Under the consolidation, the number of earmarked transfers to local governments was reduced from 46 to 20. This consolidation was a necessary first step because it helps increase LGs’ flexibility in the use of their fiscal resources, and opens the way to developing rational formulae for the allocation of the grants. It was also intended to reduce transactions costs associated with the grants planning and monitoring. It has also made the reform process more transparent and understandable for the LGs, and is helping them to achieve greater economies of scale in use of their resources.

19. The IGRTP covers all fiscal transfers to local governments which together fund the bulk of local administrative costs and service delivery in six sectors and account for 3.4 percent of GDP. These sectors include agriculture and trade, works and transport, education, health, water and environment and social development. There are up to three conditional grants per sector (Error! Reference source not found.). Within this, UgIFT will focus on health and education sector expenditures on conditional non-wage recurrent and development transfers. The approach for improving the equity of wage transfers has yet to be agreed. Formula based wage transfers are more complex to implement because their implementation depends to much greater extent on the issues external to the transfers system, such as public sector employment regulations, incentives for attracting qualified staff to jobs in hard to reach / hard to stay areas, etc.
Table 1. The New Consolidated Grant Structure and the Grants Included in UgIFT Program Expenditure Framework

<table>
<thead>
<tr>
<th>Category / Sector</th>
<th>Grant</th>
<th>Recurrent</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector Conditional Grants</td>
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<tr>
<td>Health</td>
<td>Wage</td>
<td>Non Wage</td>
<td>Development</td>
</tr>
<tr>
<td>Education</td>
<td>Wage</td>
<td>Non Wage</td>
<td>Development</td>
</tr>
<tr>
<td>Agriculture &amp; Commerce</td>
<td>Wage</td>
<td>Non Wage</td>
<td>Development</td>
</tr>
<tr>
<td>Water &amp; Environment</td>
<td>Wage</td>
<td>Non Wage</td>
<td>Development</td>
</tr>
<tr>
<td>Works &amp; Transport</td>
<td>Non Wage</td>
<td>Development</td>
<td></td>
</tr>
<tr>
<td>Community Development</td>
<td>Non Wage</td>
<td>Development</td>
<td></td>
</tr>
<tr>
<td>Ad Hoc Conditional Grants</td>
<td></td>
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<tr>
<td>Support Services</td>
<td>Non Wage</td>
<td></td>
<td></td>
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<tr>
<td>Transitional Development</td>
<td>Development</td>
<td></td>
<td></td>
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<tr>
<td>Discretionary Grants</td>
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<tr>
<td>Unconditional</td>
<td>Wage</td>
<td>Non Wage</td>
<td>Development</td>
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<tr>
<td>Discretionary Dev’t Equalisation</td>
<td>Non Wage</td>
<td>Development</td>
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</table>

20. **The IGRTP has three complementary dimensions to support the achievement of its objectives.** These are set out in Table 2.

Table 2. Elements of the IGFTRP and Related UgIFT Program Activities

<table>
<thead>
<tr>
<th>Elements of the IGFTRP (Government’s program)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Redesigning sectoral and discretionary transfers within a consolidated grant framework.</td>
</tr>
<tr>
<td>i. The development of objective and equitable allocation formulae for all sector conditional grants and discretionary grants within a consolidated grant framework, following the rationalization of all sector conditional grants; and the merging of equalization and regional development grants.</td>
</tr>
<tr>
<td>ii. The establishment of sectoral budget requirements instead of grant based input conditions.</td>
</tr>
<tr>
<td>iii. The establishment of a transparent, rules based systems for management of LG transfers by central government.</td>
</tr>
<tr>
<td>iv. The preparation of grant guidelines using a common approach for all grants</td>
</tr>
<tr>
<td>Finalization of design of conditional grants in the education and health sectors and associated revisions to guidelines for LGs and Facilities. Supporting implementation of redesigned conditional grants in the education and health sectors, including phasing in modifications of their allocation formulae. Strengthening of the management of fiscal transfers by MoFPED and the Ministries of Education and Health.</td>
</tr>
<tr>
<td>2. Reviewing the fiscal decentralization architecture and determining estimating the cost of adequately financing those mandates relative to the overall budget.</td>
</tr>
<tr>
<td>Supporting the adequacy of health and education financing through providing finance for the</td>
</tr>
</tbody>
</table>
i. Reviewing LG mandates and estimating the cost of adequately financing those mandates relative to the overall budget.

ii. Reviewing the overall legal and policy framework for local government revenues and expenditures and recommending changes implementation of the medium-term plan for uplifting transfers in health and education.

<table>
<thead>
<tr>
<th>3. Establish a framework of performance incentives in the grant system to lever improved institutional and service delivery performance and accountability.</th>
</tr>
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<tbody>
<tr>
<td>i. Establishment of a 3 level performance assessment framework which assesses a) core budgetary and accountability requirements [\text{b) core and sectoral institutional performance and c) service provider performance.}]</td>
</tr>
<tr>
<td>ii. Introducing performance incentives, including rewarding those local governments which plan for and implement programs well, in adherence to the legal and policy framework, and sanctioning those which do not.</td>
</tr>
<tr>
<td>iii. Establishing a framework of “performance improvement programs” which target action to improve performance in LGs and areas which where performance is weak.</td>
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</table>

| Implementation and refinement of the annual assessment process of LGs and the linking of grant allocations to health and education to performance assessments. |
| Development and implementation of the Performance Improvement Programming Framework for LGs. |

21. **The first dimension of the IGRTP, involves consolidating and redesigning sectoral and discretionary transfers to LGs.** This includes developing more objective and equitable allocation formulae within agreed principles and guidelines which focus on the performance and accountability of LGs, rather than on input-based conditions. Formulae have been developed for non-wage and recurrent grants to reduce horizontal inequity (for example, seeking to reduce inequities in per capita funding in the health and education sectors whilst catering for other factors such as the variable costs of delivering services). New sector grant guidelines have also been developed. Grant input-based conditions have been replaced by sectoral performance budgeting and accountability requirements to promote a more efficient management of resources by local governments. Revisions to sector guidelines for service providers and for required infrastructure investments are also planned.

22. **The second dimension involves estimating the cost of adequately financing LG service delivery mandates relative to the overall budget and reviewing the fiscal decentralization architecture.** This involves estimating the cost of fully funded capitation grant policies at the school level nationwide, and adequately funding health facilities for their operational costs, for example. This will be followed by a review of the fiscal architecture governing overall budget allocations to LG transfers and local revenue assignments.

23. **The third dimension involves introducing a framework of performance incentives in the grant system and targeted performance improvement to drive improved institutional and service delivery performance and accountability.** This involves linking the size of transfers to LG institutional and service delivery performance at three levels: (a) adherence to adequate budgeting and accountability requirements, (b) core and sectoral institutional performance, and (c) service provider performance. A LG Performance Assessment Manual has been drafted and performance assessments have been piloted. The reform will also involve the establishment of a mechanism of targeted support to poorly performing local governments through the agreement, validation, and implementation of performance improvement programs.

24. **IGFTRP sets out institutional arrangements helping manage the strengthened process and systems being established.** The approach involves consolidating and strengthening
existing institutions and coordination mechanisms to deliver the reform, rather than the creation of parallel processes. This includes a high level IGFT Steering Committee, an IGFT technical committee, and a series of task forces dealing with grant management, assessment and targeted support. This will ensure the management and coordination of intergovernmental fiscal transfers and associated performance assessment and improvement frameworks.

25. As part of the IGFTRP a medium-term plan for uplifting intergovernmental fiscal transfers is being developed, covering all grants to local governments. Implementation of the plan over several years will enable the phased implementation of the new non-wage recurrent and development allocation formulae and the restoration of the adequacy of funding for service delivery. MoFPED has developed an Online Transfer Information Management System (OTIMS)\(^1\) to ensure transparency and rules-based implementation of the new formulae. The additional administrative costs of managing the transfers, carrying out the performance assessments and the targeted performance improvement plans have also been costed as part of the IGFTRP medium-term plan.

IV. Program Development Objective(s)
26. The Program Development Objective (PDO) is to improve the adequacy and equity of fiscal transfers and improve fiscal management of resources by Local Governments for health and education services. Addressing the amount and distribution of resources is necessary but not sufficient to significantly improve Education and Health sector outcomes. The same can be said of management of these resources to ensure the processes and systems governing their use are efficient. The overarching objective of this operation is to establish the preconditions for subsequent education and health reforms directly impacting sector outcomes.

\(^1\) See [www.budget.go.ug/fiscal_transfers](http://www.budget.go.ug/fiscal_transfers).
27. The first dimension of UgIFT will deliver results on the adequacy of financing of decentralized health and education services from the Central Government through the transfer system. UgIFT IDA resources will secure the required annual increases in LG health expenditures:

- In 2021/22 annual conditional grants for Education will be 34 percent higher in nominal terms. Cumulatively over the duration of the Program education transfers would been USh1.1tn (US$315 million) higher than if they were maintained at 2016/17 levels. Operational funding available per child of school going age will also have increased from approximately US$1.86 to US$3.13 in primary per child of school going age and US$3.99 to US$6.77 in secondary. Development funding will increase from US$0.73 to US$1.79 per child. This is roughly equivalent of the funding required for the rehabilitation and/or construction of at least 9,000 additional classrooms.

- In 2021/22 annual conditional grants for health will be 65 percent higher in nominal terms. Cumulatively over the duration of the Program health transfers would have been USh 567bn (US$160 million) higher than if they were maintained at 2016/17 levels. Operational funding per capita will increase from US$0.35 to US$0.87. A typical health facility allocation will increase from US$2,000 to US$6,000 and a hospital allocation from US$50,000 to over US$100,000. Development funding will increase from US$0.29 to US$0.53 per capita. This is roughly equivalent of the funding required for the rehabilitation and/or construction of 7,000 structures in health centers.
The second dimension of the Program will deliver results on the equity of financing of decentralized health and education services through the transfer system. The additional funding will be targeted on the least funded local governments using objective and equitable allocation formulae. This will achieve the following results over the lifetime of the project:

- For the education non-wage recurrent conditional grant which supports the running costs of schools, allocations per child of school-going age for the 20 worst funded districts will increase from 31 percent to 46 percent of the levels allocated to the 20 best funded. For the education development grant, which funds the equipping, rehabilitation and construction of health infrastructure, 22 percent of development grant transfers will be provided to the 30 worst funded LGs relative to the formula.

- For health sector non-wage recurrent conditional grant which, inter alia, supports the running costs of health facilities, per capita allocations for the 20 worst funded districts will increase from 14 percent to 43 percent of the levels allocated to the 20 best funded. For health sector development grant, which funds the equipping, rehabilitation and construction of health infrastructure, 30 percent of development grant transfers will be provided to the 30 worst funded LGs relative to the formula. The target ratios for reducing the horizontal inequities in allocations per beneficiary were chosen in a way which is consistent both with the new formulae for the grants and with the Program’s expenditure framework agreed with the Government of Uganda. They are more conservative compared to what the projected allocations according to the formulae would imply, to allow for an impact of unforeseen change in the variables affecting the allocations.

The third dimension of the Program will deliver results in improving the management of resources for service delivery by Local Governments. Improved management of resources is achieved through the introduction of an organizational performance
assessment system; creating incentives through linking grant allocations to the results of the performance assessment; and targeted performance improvement programs (see Annex 10) It is expected this will achieve the following results:

- Improvements in health and education performance in the areas of a) human resources (teacher) management b) oversight, inspection and monitoring c) transparency and accountability d) procurement and contract management and d) financial management and reporting by the local government.

- Measured institutional and service delivery performance in health facilities and schools will improve, in those facilities where assessments take place from 2019/20 onwards (i.e. when assessments are extended to the facility level)

30. **The third dimension targets the procedures and systems utilized by LGs to efficiently manage education and health resources.** It does not purport to directly change sector outcomes. Rather it should be viewed as a necessary precursor to a subsequent phase that focuses specifically on outcomes. It establishes managerial preconditions for improving health and education access to services, quality service delivery and quality infrastructure. Significant improvements in education and health outcomes — _inter alia_, access to primary schools, reduced repetition and drop out, improved learning and pass through to higher levels and access to well-staffed and resourced clinics and hospitals which follow accepted medical protocols — will require additional Bank and Government programs

31. **Beyond the development objectives of UgIFT, it is envisaged that more equitable, adequate and efficient financing of health and education services will ultimately lay the foundation for improved service delivery outcomes.** In doing so it will complement other sectoral programs including Bank operations in health and education and planned governance operations. The impact of UgIFT on service delivery outcomes will depend on these operations as well as other interventions. The final beneficiaries of UgIFT will be consumers of health and education services at the local level. Those who will benefit the most will be those living in the most underfunded districts.

32. **Results achieved by the Program are likely to be sustained after its completion.** The results related to adequacy of financing are likely sustainable because increase in transfers to local governments will be financed primarily with the GoU own resources. The annual increase in government financing during the period covered by the Program will be approximately equal to the annual disbursement of IDA funds, and the share of IDA funding in program expenditures is expected to decline from 44.6 percent during the first year of Program implementation to 19.1 percent during the last year. The results related to equity of financing are likely to be sustained because by the end of the Program formulae for the grants will be fully phased in, so that they could be reasonably expected to be followed in the future. Similarly, the system for improving institutional capacities and incentives of the LGs to manage their resources is expected to be fully operational and well tested by the end of the Program period.

V. **Environmental and Social Effects**
33. The Environmental and Social Systems Assessment has identified risks resulting from deficiencies with respect to the capacity of Local Governments to carry out nationally derived processes. The existing environmental and social management framework at the national level should, in theory, provide adequate means for reducing risks from program elements supported by the UgIFT. But past practice has not lived up to this. Nevertheless, with mitigation measures, these risks can shift from substantial to moderate during program implementation. Moreover, if Program results are achieved and deliver increased equity and improved allocation of services within districts, this will potentially have significant social benefits for marginalized groups.

34. The investments supported by the Program — including the rehabilitation and construction of additional primary/secondary schools and health clinics\(^2\) infrastructure — typically pose modest risk when screening and supervision is carried out correctly by national authorities. Nevertheless, the field experience in Uganda and observed deficiencies in local government capacity suggests a comparatively higher risk for social considerations. These risks stem from the likelihood of influx of construction workers from larger urban centers into smaller subdivisions (parishes and sub-counties) specifically targeted by the operation, and generally lacking local capacity to carry out construction of facilities such as maternity/general wards, operating theatres, and other facilities associated with health services. Construction of primary schools could also require influx of outside workers. Local communities often lack the means to absorb and manage the influx of such workers. Concerns include: (i) the spread of HIV/AIDS, (ii) instances of Gender Based Violence (GBV) and Violence Against Children (VAC), and (iii) labor related issues, including Child Labor. Land acquisition and resettlement is not expected to pose significant risks given the small scale of investments and the likelihood of construction being carried out on existing facilities’ footprints, though it is important that these processes are properly tracked. A number of these civil works will also be implemented in areas where communities are not always duly consulted during project preparation or lack access to adequate grievance redress mechanisms.

35. While the scale of the investments (and consequent risks) that will be supported through the UgIFT is markedly less than troubled transport sector projects, appropriate due diligence is needed. The World Bank is taking special precautions on current and proposed investments in Uganda in light of violations being associated with contractors hired to perform civil works in rural areas. As the field exercises have revealed important deficiencies in terms of availability and capacity (technical and material) of relevant District social staff, the government has agreed to mitigation measures in the program action plan.

36. Environmental risks associated with the construction and operation of education and health facilities as envisaged by this program, are modest, and can be managed through adherence to established procedures for screening, contracting, and supervision during implementation. Unfortunately, in almost half of surveyed Districts, good screening is not carried out, and in the majority of Districts, staff and material shortages hamper both

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\(^2\) The education and health development grants will focus on construction and rehabilitation of classrooms, teacher houses, sanitation facilities, dormitories, libraries, maternity wards, general wards, operating theatres, mortuaries, etc.
screening and especially supervision. There have been advances in health waste management in the country though again, adherence at the local level may be problematic. As the field exercises have revealed important deficiencies in terms of availability and capacity (technical and material) of relevant District environmental staff, the government has agreed to mitigation measures in the program action plan.

37. **Mitigation measures will build on the program’s overall approach for improving efficiency and developing capacity of local governments.** The annual performance assessment manual includes criteria which assesses and tracks local governments adherence to basic environmental and social safeguards including: whether sufficient staff are in place (numbers and qualifications), whether/how extensive is screening of projects for environmental and social risk, whether/how many field inspections are carried out, and how these problems resolved in practice. A pre-condition of issuing the 2018/19 grants is an acceptable level of staffing for environmental and social experts at the local level. Procedures and manuals relating to the use of transfers will be updated to address, insofar as they can, more specific environmental and social risks raised in the ESSA. Where necessary, the performance assessment manual will also be updated. On the basis of the annual performance assessment, and on an as-needed basis, targeted technical support will be provided by central government authorities in areas of underperformance.

38. **In the context of the program, grievance redress will be based on governments own systems.** In order to ensure that potentially affected persons do not have to travel long distances or incur any costs during grievance processes, the initial point of intake grievances for education investments is envisaged to be existing School Management Committees which provide oversight of school management and represent local communities’ and parents’ interests in school facilities. For health investments, Health Management Units Committees whose mandate includes fostering improved communication with the public and encouraging community participation in health activities within and outside the unit, would serve that purpose. However, because members of these committees are not specifically trained to address infrastructure related environmental and social issues, their guidelines would be strengthened as part of the program to allow them to manage a wider range of complaints and as necessary, channel them to the appropriate and established local government and national systems for grievance redress, which include respective subdivisions leadership/councils and relevant District/Sub-county civil servants (LCs, Probation Officers, Labor Officers, District Environmental Officers, and the Ugandan Police) that are better equipped to handle cases of GBV, VAC, and labor related issues. Moreover, these committees could play an important role in sensitizing communities and workers to these risks - for instance, Health Management Units could support contractors in developing HIV/AIDS sensitization/prevention activities for workers and community members while School Management Committees could involve teachers in sensitizing students and parents to these risk but also in monitoring worker/student interactions. In addition, from 2018/19 onwards, guidelines will also require facilities to put up notices outlining the channels available to beneficiaries for grievance redress. These will be specified in the Program Operations Manual and dissemination and compliance will be incentivized through the assessment process.

39. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing Program grievance redress mechanism or the WB’s**
Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. Financing

40. The cumulative Program size—which includes the LG grants, management, assessment and support over the five years—will be US$793.8 million, of which 25.2 percent will be funded from IDA resources (Table ). The Program therefore will leverage government resources far in excess of the value of IDA resources. Error! Reference source not found. shows how IDA resources will be disbursed. The IDA resources, in effect, pay for the annual increase in sector grants, each year from 2018/19 onwards, with the GoU picking up the cost of the increases for the previous years. Cumulative increase in conditional transfers to LGs for health and education services in a course of the Program implementation, compared to a scenario where their amounts would remain at their 2016/17 levels, is projected at US$475 million (US$315 million for education and US$160 million for health). This increase exceeds the amount of IDA credit by US$275 million or by a factor of 2.37. Upon effectiveness in 2017/18, disbursement of the IDA funds will be made against prior results and to cover, inter alia, the costs of the annual performance assessments.

<table>
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<tr>
<th>Source</th>
<th>Amount</th>
<th>% of Total</th>
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<td>Government</td>
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<tr>
<td>Total Program Financing</td>
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VII. Program Institutional and Implementation Arrangements

41. The implementation of UgIFT will use existing GoU structures and no parallel implementation and oversight structures will be created. Figure 7 below sets out the institutional responsibilities under IGFTRP. The main responsibilities for each ministry as they apply to the Program are described here.
42. The MoFPED is responsible for coordinating the budget process with respect to LGs and for managing intergovernmental fiscal transfers, including those supported by UgIFT. The Fiscal Decentralization Unit (FDU) of the Budget Policy and Evaluation Department (BPED) coordinates the LG budget process, the release of grants to LGs, LG budget reporting, the compilation of grant allocations for LGs. It also coordinates reform implementation. In the context of UgIFT, the FDU will coordinate the reporting and M&E activities relating to the Program. Within the MoFPED, a Task Force has been formed to coordinate the management of fiscal transfers, which is composed of sectoral desk officers within the budget directorate and officers from the Accountant General responsible for making releases. BPED is also responsible for promoting budget transparency, including for LG transfers.

43. The Department of M&E in the Office of the Prime Minister (OPM) will coordinate the LG performance assessment, and manage the assessment process. In doing so, the OPM chairs a task force established to oversee the assessment process. The task force involves representatives from line ministries, MoLG, MoFPED and LGFC. The Ministry of Local Government will be responsible for coordinating the process of targeted Local Government Performance Improvement, with the health and education ministries and other relevant parties. The MoLG will chair a LGPI task force. The Ministries of Health and Education are responsible for sector
policies and strategies which govern local service delivery, for development of the grant formulae and guidelines, and medium term grant allocations within sector ceilings. They will also be responsible for overseeing the sectoral elements of the assessment process, providing targeted performance improvement support to LGs in their sectors.

44. **Two committees will oversee the management of Fiscal Transfers, which will be chaired by MOFPED:**

   - The IGFT Technical Committee, will be responsible for coordinating, at a technical level, the grant and assessment framework, and the interface between performance assessment grant allocations and targeted technical support. It will also verify, at a technical level the achievement of DLIs.

   - The IGFT Steering Committee will be established under the IGFTRP made up of the Permanent Secretaries of Ministries of Health, Education, OPM, MoLG, LGFC and chaired by MoFPED. This committee will be responsible for monitoring and ensuring UgIFT DLIs are met and address any high-level implementation issues as they arise.

45. **The Local Government Finance Commission** will advise these two Committees on issues relating to local government financing, and also verify the DLIs 1 and 2 relating to health and education financing.

46. **Finally, it is important to emphasize the role of LGs. They will be responsible for:** preparation of LG budgets and workplans which adhere to requirements set out in grant guidelines; generating Accounting Warrants to access releases; preparing quarterly budget performance reports; other reporting on activities and monitoring and evaluation. For poorly performing LGs, they will be required to also agree and implement the performance improvement plans.

   **A. Results Monitoring and Evaluation**

47. **The full results chain of the operation is set out in the Program Results Framework (Annex 2).** The Program results framework is aimed at assessing the achievement of the PDO which is “to improve the adequacy and equity of fiscal transfers and management of resources by Local Governments for health and education services.” The intervention logic of the program is that this will contribute to overall improvements in service delivery.

48. **The Program Results Framework will monitor the level of** LG financing, expenditure and inputs, institutional performance, and service delivery performance, using the following sources of information:

   (a) **Financing:** Information on LG transfer formulae, allocations and releases via OTIMS.

   (b) **Expenditure, Inputs and Outputs:** Routine budget reporting on Expenditures and Service Delivery Inputs and Outputs by Local Governments using the Output Budgeting Tool which will be replaced by the Performance Budgeting System over
the course of the budget;

(c) **Institutional Performance:** Result of the Annual LG Performance Assessments which will measure local government, and the performance of service providers;

(d) **Service Delivery Performance:** Key service delivery performance indicators, including those used in the allocation formulae, using the Online Transfers Information Management System (OTIMS)

49. **This information will form the basis for providing program specific information.** This includes information relating:

- The achievement of Disbursement-Linked Indicators (DLIs) provides a measure of UgIFT performance, which, by definition, determines disbursements in the Program;
- PDO Indicators and Interim Results, which are set out in the Program Results Framework in Annex 2;

50. **MoFPED will be responsible for monitoring UgIFT.** With the planned institutional support MoFPED will be fully capable of monitoring UgIFT as part of its regular operations. It will also be able to track the easily measurable DLIs. Line ministries in education and health will also monitor LG use of funds along with the Local Government Finance Commission. OPM will strengthen its capacity to monitor overall LG performance, including the performance assessment process.

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