I. Key development issues and rationale for Bank involvement

The First Fiscal Decentralization, Governance, and Service Delivery Development Policy Operation (DPO) is the first of two DPOs aimed at strengthening the fiscal decentralization framework, improving governance, and enhancing public services in Uganda. The operation will mark the return to development policy financing for Uganda building on the momentum created by the implementation of the High-Level Action Matrix. The operation’s design reflects a joint decision of the Government of Uganda and the World Bank to use development policy lending more selectively to support high-priority governance or sectoral reforms, documented in the Uganda Country Assistance Strategy Progress Report. Uganda has restored sound macroeconomic framework after an episode of macroeconomic instability in 2011-12, and maintaining this framework will be an essential precondition for approval of this operation.

II. Proposed Objective(s)

The development objective of the proposed DPO series is to enhance the fiscal decentralization framework and to improve selected dimensions of governance and service delivery.. The
operation will support implementation of the strategic objective of the Second NDP to “Strengthen Mechanisms for Quality, Effective and Efficient Service Delivery”.

III. Preliminary Description

The DPO series is designed around two pillars. The first pillar, “Enhancing Fiscal Decentralization”, will focus on improving equity and efficiency of intergovernmental fiscal transfers to the district governments, and on implementing institutional changes to enhance fiscal decentralization framework. The second pillar, “Promoting Good Governance for Better Service Delivery”, will focus on enhancing public financial management and procurement for better service delivery, and on creating opportunities for enhanced transparency and citizen engagement to improve accountability for results.

While the government policies related to these pillars are wide-ranging, the proposed DPO series will focus on a targeted set of critical policy actions. Experiences of the past budget support operations in Uganda demonstrate that focus on some key distortions will be critical to prioritize the government’s efforts in light of limited institutional capacity and implementation gaps. This will maximize the chances for achieving significant and lasting results. The policy actions will be chosen based on relevance, timing for implementation and coordination with other donors’ activities.

IV. Poverty and Social Impacts and Environment Aspects

There are no adverse distributional effects anticipated from the policies supported by the operation, but many reforms are expected to bring benefits to the poor and lagging areas. The fiscal decentralization reforms are designed to improve the quality of services across the board but vulnerable groups who predominantly rely on public social services will benefit the most without necessarily disadvantaged other groups, as horizontal inequities in provision of public services are supposed to be decreased. The reforms on public financial management, procurement, accountability and anti-corruption lay the foundation for transparency and accountability that will be crucial for Uganda to succeed in improving public service delivery. Other measures are related to institutional reforms to improve the efficiency and effectiveness of government spending to the benefit of all people.

The operation is not expected to have any significant environmental effects. Minor effects may arise from changes in allocation of resources to public investments in infrastructure by local governments as a result of intergovernmental fiscal transfers’ reform, but environmental risks are low.
V. Tentative financing

Source: ($m.)
BORROWER/RECIPIENT 0
International Development Association (IDA) 90
Borrower/Recipient
IBRD
Others (specify)
Total 90

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