

Evaluation of General Budget Support – Uganda Country Report

**A Joint Evaluation
of General Budget
Support 1994-2004**



May 2006

JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam



Uganda Country Report



May 2006



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Researchers'
Network



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PREFACE

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

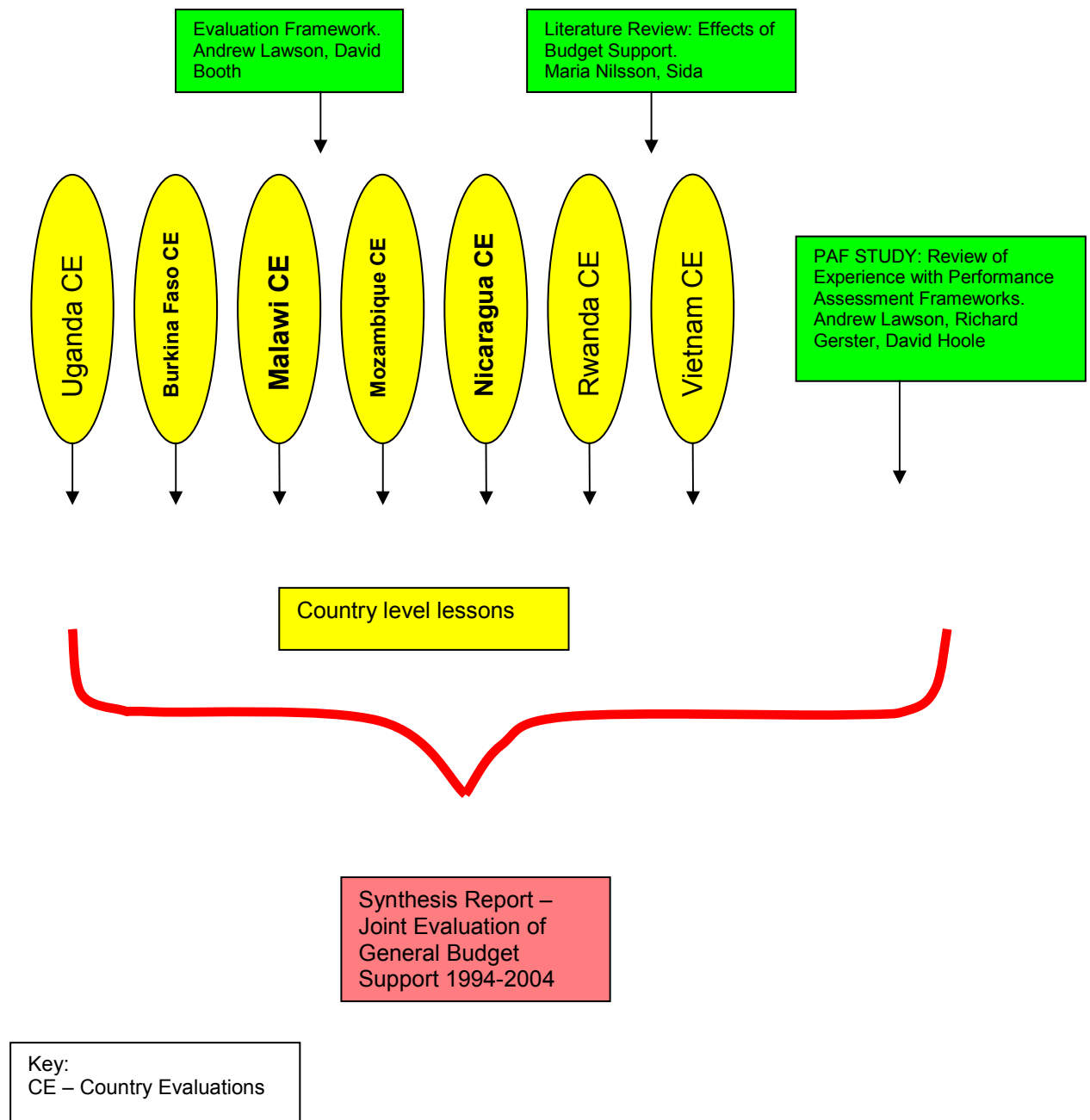
This report represents the views of its authors and not necessarily the views of the Steering Group or its members.

*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

Joint Evaluation of General Budget Support 1994-2004

The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



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Joint Evaluation of General Budget Support UGANDA COUNTRY REPORT

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Abbreviations and Acronyms

AAP	Assessment and Action Plan (HIPC)
AfDB	African Development Bank
AfDF	African Development Fund
APR	Annual Progress Report
BFP	Budget Framework Paper
BOP	balance of payments
BOU	Bank of Uganda
BS	budget support
BWI	Bretton Woods Institutions (<i>i.e. WB and IMF</i>)
CAO	Chief Administrative Officer
CB	capacity building
CCS	Commitment Control System
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CIFA	Country Integrated Fiduciary Assessment
COA	Chart of Accounts
COFOG	Classification of Functions of Government
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
CR	Country Report
CSO	Civil Society Organisation
DAC	Development Assistance Committee (OECD)
Danida	Danish International Development Agency
DDP	District Development Plans
DDSG	Decentralisation Donor Sub-group
DFID	Department for International Development (UK)
DP	development partner
DWD	Department of Water Development
EC	European Commission
EEF	Enhanced Evaluation Framework
EFMP	Economic and Financial Management Programme
EFMP2	Second Economic and Financial Management Project (World Bank)
SAF	Structural Adjustment Facility
ESAF	Enhanced Structural Adjustment Facility
FAP	Financial Accountability Programme (DFID)
FY	financial/fiscal year
GBS	General Budget Support
GDP	gross domestic product
GFATM	Global Fund for AIDS, Tuberculosis and Malaria
GHI	Global Health Initiative
GNI	gross national income
GOU	Government of Uganda
GTZ	German agency for technical cooperation
H&A	harmonisation and alignment
HIPC	Highly Indebted Poor Country
HIV/AIDS	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome
HLG	Higher Local Government
HSSP	Health Sector Strategic Plan
IDA	International Development Association (World Bank)
IDD	International Development Department (University of Birmingham)
IFI	International Financial Institution

IFMS	Integrated Financial Management System
IFS	International Financial Statistics
IG	Inspectorate of Government
IGG	Inspector General of Government
IMF	International Monetary Fund
IP	international partner
IPF	Indicative Planning Figures
IPSAS	International Public Sector Accounting Standards
IR	Inception Report
IT	information technology
JARD	Joint Annual Review of Decentralisation
JICA	Japan International Cooperation Agency
JLO	Justice, Law and Order
JLOS	Justice, Law and Order Sector
LDG	Local Development Grant
LG	local government
LGDP	Local Government Development Programme
LG FAR	Local Governments Financial and Accounting Regulations
LGFC	Local Government Finance Commission
LGIFA	Local Government Integrated Fiduciary Assessment
LLG	Lower Local Government
LM	Line Ministry
LTEF	Long Term Expenditure Framework
M&E	monitoring and evaluation
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDA	Ministry, Department and Agency
MDF	Multilateral Development Fund
MDGs	Millennium Development Goals
MFPED	Ministry of Finance, Planning and Economic Development
MGLSD	Ministry of Gender, Labour and Social Development
MOES	Ministry of Education and Sport
MOF	Ministry of Finance
MOH	Ministry of Health
MOLG	Ministry of Local Government
MOPS	Ministry of Public Service
MOU	memorandum of understanding
MOWHC	Ministry of Works Housing and Communications
MOWLE	Ministry of Water, Lands and Environment
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
NAADS	National Agricultural Advisory Services
NGO	non-governmental organisation
NIMES	National Integrated Monitoring and Evaluation System
NPA	National Planning Authority
NR	natural resources
NRM	National Resistance Movement
NSF	National Strategic Framework
NWSC	National Water and Sewerage Corporation
OAG	Office of the Auditor General
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD DAC	OECD Development Assistance Committee
OOB	outcome-oriented budgeting
OPM	Office of the Prime Minister

ORS	oral rehydration salts
PABS	Poverty Alleviation Budget Support
PAC	Public Accounts Committee
PAF	Poverty Action Fund
PAPSCA	Programme for the Alleviation of Poverty and the Social Costs of Adjustment
PE	Public Expenditure
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PEMCOM	Public Expenditure Management Committee
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Studies
PFM	public finance management
PGBS	Partnership General Budget Support
PMA	Plan for the Modernisation of Agriculture
PMS	Poverty Monitoring System
PMU	Parastatal Monitoring Unit
PNFP	private not-for-profit
PPA	Participatory Poverty Assessment
PPDA	Public Procurement and Disposal of Public Assets
PPP	Public Private Partnership
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
ROM	results-oriented management
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SASP	Structural Adjustment Support Programme
SC	steering committee
Sida	Swedish International Development Cooperation Agency
SPA	Strategic Partnership with Africa
SWAp	sector wide approach
SWG	Sector Working Group
TA	technical assistance
TM	treasury memorandum
TOR	Terms of Reference
UBOS	Uganda Bureau of Statistics
UGS	Uganda shillings
UNDP	United Nations Development Programme
UPE	universal primary education
UPPAP	Uganda Participatory Poverty Assessment Process
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
USD	US dollars
VFM	value for money
VPF	Virtual Poverty Fund
WB	World Bank

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Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

Terminology

Readers not familiar with Uganda should beware the abbreviation **PAF**. In Uganda it refers to the **Poverty Action Fund** (not, as in the other studies in this series, a Performance Assessment Framework).

Currency, Exchange Rate and Fiscal Year

Currency	Ugandan Shillings (UGS)
Exchange Rates	1 USD = UGS 1824.01 1 EUR = UGS 2190.91 (source: Financial Times 6 March 2006)
Fiscal Year	1 July – 30 July

EXECUTIVE SUMMARY

Part A: Context and Description of PGBS

Introduction and Conceptual Framework

S1. Uganda is one of seven case studies in a joint evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called “new” or “Partnership” GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

S2. Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Uganda study followed the same methodology as the other country cases. This is fully set out in the Inception Report approved by the steering committee for the study, and involves working through “levels of analysis” from the entry conditions at the point that PGBS was adopted, to the inputs made by PGBS, their immediate effects, outputs, outcomes and impacts on poverty reduction. The analysis in each chapter responds to a common set of evaluation questions. The Uganda report also incorporates a special study of decentralisation and PGBS.

The Context for Budget Support in Uganda

S3. After independence, Uganda suffered decades of conflict and misrule, during which the economy regressed and living standards declined. In 1986 the present National Resistance Movement (NRM) government took power, led by Yoweri Museveni. This ushered in a more peaceful period during which there has been stability and growth. President Museveni established good relations with the donor community, and Uganda was a pioneer in a number of developmental innovations: it was the first country to qualify for Heavily Indebted Poor Countries (HIPC) debt relief, its own poverty strategy anticipated the now-standard Poverty Reduction Strategy Papers (PRSPs), and it was the first recipient of a World Bank Poverty Reduction Support Credit (PRSC).

S4. Economic growth, which has averaged over 6% over the last 15 years, has had a significant effect in reducing income poverty, but Uganda remains one of the world’s poorest countries, ranked 144 out of 159 countries on the Human Development Index (2005). Progress in raising per capita incomes has been undermined by high population growth, which averaged 3.4% a year between 1990 and 2002. The HIV/AIDS pandemic had a devastating impact on the Ugandan population throughout the 1990s, but there were dramatic reductions in HIV prevalence from around 20% to below 10% in 2000, and now levels have stabilised at around 7%. There are significant regional variations in human development outcomes, and the North, which is ravaged by conflict, lags behind the rest of the country.

S5. From the mid-1980s, the International Monetary Fund (IMF) and the World Bank undertook a series of structural adjustment operations in Uganda. Initially there were tensions between them and the Government of Uganda (GOU) over macroeconomic policy, but there was a breakthrough in 1992 when, after an episode of fiscal indiscipline, President Museveni strengthened the position of a unified Ministry of Finance, Planning and Economic Development (MFPED), which introduced a rigorous system of cash budgeting. Since then fiscal deficits and inflation have been kept under control (with inflation remaining below 10% since 1994). The track record of strong macroeconomic management throughout the evaluation period meant that the dialogue between Uganda and its international partners (IPs) moved on to issues of development strategy and public expenditure.

S6. In the early 1990s, while targeted interventions were carried out to alleviate the adverse social costs of structural adjustment, concerns emerged about the need to address poverty issues more comprehensively and to focus aid more effectively. In 1995 a forum on poverty attended by the President was held, and a task force was established to examine how poverty could be tackled. This task force developed Uganda's first comprehensive poverty reduction strategy, the Poverty Eradication Action Plan (PEAP1), which was published by the Government in 1997. The PEAP, now in its third iteration, is widely regarded as a genuine, and government-owned, poverty reduction strategy. Disciplined macroeconomic management was allied to the strengthening of public finance management, led by MFPED, including the development of increasingly sophisticated links between medium-term plans and budgets, with the result that PEAP priorities could be reflected in budget allocations.

S7. Throughout the evaluation period, Uganda maintained a democratic but "no-party" system of governance, reflected in the 1995 constitution, which also provided the framework for systematic decentralisation. The NRM government was a marked improvement on its predecessors, with a lower incidence of human rights abuses and tolerating a vociferous press. Its relations with the international community were good, but have recently become more strained over Uganda's involvement in regional conflicts, uncertain transition towards multi-party democracy, high-level corruption, and the amendment of the constitution to allow President Museveni to seek a third elected term of office.

S8. Uganda is a highly aid-dependent country. Over the evaluation period, aid flows averaged 11% of GDP and 50% of public expenditure. The political and economic success of the NRM government, contrasted with that of its predecessors, led Uganda in the late 1990s to be regarded as a rare success story in Africa. An active and transparent aid management strategy helped to ensure sustained support from a wide range of bilateral and multilateral aid agencies.

The Evolution of Partnership GBS in Uganda

S9. Uganda was a pioneer in new (Partnership) GBS, which currently accounts for half of its aid flows and involves a wide range of donors and a large number of instruments. The genesis of PGBS lies in: evolution from structural adjustment and debt-relief forms of programme aid; strengthening of the planning and budgeting system which underpinned moves towards sector-wide planning and aid coordination in key sectors; development of a national poverty reduction strategy (the PEAP); and the linking of HIPC debt relief to an innovative Poverty Action Fund (PAF). Government was an active innovator, with clear preferences concerning aid modalities which were expressed in the PEAP2 partnership principles.

S10. New-style (Partnership) GBS began in Uganda in 1998, with the funding of the Poverty Action Fund, using notionally earmarked budget support alongside HIPC debt relief. This was allocated to priority poverty reduction programmes through the GOU budget, including earmarked sector budget support linked to sector programmes in education and then health. The introduction of the PRSC by the World Bank in 2001 marked the first full unearmarked PGBS designed to support Uganda in the implementation of the PEAP.

S11. Between 1998 and 2000 there was a rapid increase in aid flows, associated with increasing donor confidence in GOU reforms, and the emergence of PGBS. There was a large absolute and relative increase in programme aid from 2000 to 2003 as an increasing number of donors began using budget support, to varying degrees, as part of their aid portfolios. Programme aid reached, and remains at, well over 50% of on-budget aid flows. By 2003/04 there were 13 different donors providing PGBS, and these donors were operating 34 different budget support programmes, of which 25 were sector budget support programmes.

S12. Over the evaluation period development partners have used three main variants of PGBS:

- *Sector Budget Support* – budget support notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the Poverty Action Fund. This represents the largest number of budget support instruments, and has involved the largest number of donors – 13 up to 2004. Between 1998/99 and 2003/04 approximately USD 509m was disbursed using this form of budget support.
- *Poverty Action Fund General Budget Support* – budget support that is notionally earmarked to the Poverty Action Fund as a whole, but not to individual sectors. Five donors have taken this approach to budget support, and approximately USD 145m has been disbursed between 1998/99 and 2003/04.
- *Full General Budget Support* – this is completely unearmarked. Six donors have used full GBS as an instrument, and this includes the World Bank's PRSC. Despite the small number of full GBS donors it represents the largest amount of PGBS, with USD 713m being disbursed between 1999/2000 and 2003/04.

S13. Since in all cases the funding is only notionally earmarked to particular expenditures, all these variants are treated as PGBS for the evaluation. Because of its scale and central position in the dialogue, the PRSC functions as the leading edge of PGBS.

Part B: Analysis of PGBS

The Relevance of PGBS

S14. The first stage of the evaluation is to consider the relevance of the "design" of PGBS – considering what guided donors' decisions to enter PGBS and what adaptations they made to match their objectives to the political, institutional, and economic context. In fact there have been, and are, many PGBS instruments, and they have evolved significantly over the period. The study has assembled a full inventory of these instruments and their characteristics in terms of financial flows, disbursement conditions, dialogue arrangements, harmonisation and alignment of the IPs, and complementary technical assistance and capacity building (TA/CB). While the finance is straightforward to identify as a discrete input, the other inputs are typically shared with other aid instruments, and the TA/CB inputs are both the least explicit part of the design and the most difficult to identify separately.

S15. Overall the many different designs of PGBS have been fairly responsive to the specific conditions of Uganda, and they have adapted to the evolving PRSP and sector priorities. However, the original design was perhaps too optimistic about governance issues and there was a bias towards the social sectors, with productive issues emerging later.

S16. Much of the PGBS dialogue used pre-existing sector and budgetary forums, with the PRSC steering committee being the main addition. Conditionality has been increasingly focused on government policies and plans. Despite being well structured, there are gaps where dialogue and conditionality could have helped foster reforms, while the dialogue often gets dominated by issues where progress is unlikely. Meanwhile IPs have made inaccurate assumptions about the level of government ownership of policies and plans, which are increasingly technocratic, and less political.

S17. The 1997 PEAP (whose subsequent iterations became the PRSP) and sector strategies, which were again initiated before the move to PGBS, meant there was a strong framework of poverty reduction objectives to which PGBS could be aligned from the outset. Although the PGBS design responded to a lot of the weaknesses in aid instruments in terms of alignment towards government objectives and harmonisation with government systems, there is still a degree of incoherence and inconsistency in design across donors.

Effects on Harmonisation and Alignment

S18. PGBS has been part of an elaborate structure of dialogue and coordination, including annual Consultative Group meetings, direct involvement of donors, through Sector Working Groups, in the budget process, and an annual PRSC timetable.

S19. The alignment of PGBS towards GOU objectives and targets set out in the framework of the PEAP and sector strategies has been strong, and given the relative and absolute increases in PGBS this has had a strong effect on alignment of IPs towards GOU objectives. Because of the strong plan–budget links in the GOU system, such alignment was more than lip-service to policy objectives. However, conditions have not always been aligned with pre-existing government policies, although GOU is always involved in their selection. MFPED played a strong role in aid coordination early on, and GOU and donors have increasingly used joint analytical work. There has, however, been limited improvement in the coordination and management of TA and CB support, although some is linked to the PRSC dialogue.

S20. Alignment of PGBS with the budget cycle is not strong: commitments are not aligned with GOU's medium-term and long-term planning horizon, and in-year disbursements vary across donors. PGBS has, automatically, contributed strongly to the increased use of government implementation systems, although recent increases in project support are threatening to undermine this.

Effects on Public Expenditure

S21. PGBS has had a major effect in increasing total and pro-poor expenditures. The latter have been largely channelled to basic services delivered by local governments. Uganda's public revenues and expenditures have increased in real terms by 240% over the last 10 years. PGBS funding has contributed 31% of the real increase in public expenditures between 1997/98 and 2003/04, when pro-poor expenditures increased from 17% to 37% of the budget with a knock-on effect in increasing the transfers to local governments. PGBS has been effective in increasing the discretionary funding on-budget, even when a substantial proportion has been notionally

earmarked under the Poverty Action Fund, as GOU was able to influence where that funding was earmarked to.

S22. Flows have been broadly predictable, inasmuch as the GOU has been able to expect continued high levels of aid, but there have been problems with short-term predictability of disbursements (which has recently improved). MFPED has coped with short-term unpredictability by discounting projected disbursements and using reserves to buffer expenditures.

S23. PGBS has contributed to allocative efficiency through the shift to pro-poor expenditures under the Poverty Action Fund (PAF), but the definition of pro-poor expenditures in the PAF is limited and programmes only get added but not withdrawn, which may limit the efficiency gain. PGBS has also increased operational efficiency, as an increased share of sector budgets is being channelled to service providers and there has been a relative decline in public administration expenditure; however, rapid increases in public expenditure may have weakened incentives to improve efficiency. There is also evidence that transaction costs for administering PGBS are relatively lower than for project support.

Effects on Planning and Budgeting Systems

S24. The basic elements of the budgetary formulation process were in place prior to PGBS. Flows of PGBS funding assisted in strengthening Uganda's PFM systems and increased the attention that spending agencies paid to that process. This was mainly due to the higher proportion of on-budget funding, which strengthened the budgeting process and provided an incentive for agencies to develop their strategies and plans.

S25. The influence of PGBS on accountability has been mixed. In some areas there are signs of increased accountability through sector review processes and in greater involvement of Parliament in the budget process. However, donors often dominate the dialogue at the expense of domestic stakeholders.

S26. So long as strong leadership remains in the MFPED, these improvements are likely to be sustained, although there is evidence that a combination of Poverty Action Fund rigidities and an increasingly routine budget process and perceptibly weaker budget challenge may undermine the future efficiency of public expenditure.

S27. Other PGBS inputs, most notably policy dialogue and technical assistance, have helped put managerial pressure on the budgetary reform programme, but those reforms remain more technocratic than focused on democratic accountability. Technical assistance and capacity building linked to PGBS have helped improve PFM systems but their effectiveness has been limited, as they have not been strategic or linked to a coherent reform programme. There has, however, been greater focus on central budgetary systems than on those for local governments, even though there have been major expansions in local resources and service delivery at that level. National level dialogue on the budget has tended to be distracted by issues where progress is unlikely, at the expense of areas where dialogue is more likely to yield results.

Effects on Policies and Policy Processes

S28. Uganda has a particularly well developed set of policy processes at the sector level, many of which pre-dated PGBS, and increasingly so in cross-cutting areas of reform such as decentralisation and PFM. However, the political ownership of these processes has been weakening.

S29. PGBS and non-PGBS IPs are important participants in policy making at the sector and cross-sector levels, as a result of a coincidence of interests between the President, MFPED and the IPs, but this coalition is increasingly fragile. Consensus around the broad strategy and objectives of the PEAPs enabled the GOU and donors to focus on means and priorities in the context of the system of medium-term expenditure planning. Where the quality of dialogue and resulting conditions was good, they played a positive role in refining policy and in providing additional impetus to key reforms. Donor influence was partly responsible for the involvement of a wider range of stakeholders including civil society, in policy processes, although some question its meaningfulness.

S30. Processes are often adaptive to circumstances and constraints, including political decisions such as free healthcare. While cross-cutting processes are less well developed, the policy dialogue and conditionality helped protect some of the ongoing reform processes in PFM and decentralisation from opponents, and maintain the pace of reform. At the same time, the prominence of the donors has tended to overshadow domestic stakeholders, including Parliament.

S31. Sector policies and public expenditure plans are particularly explicitly linked in Uganda, and the Long Term Expenditure Framework has added a long-term perspective. However, policies have often been public-sector-dominated and neglected the role of the private sector, although these issues are becoming increasingly prominent.

Effects on Macroeconomic Performance

S32. Macroeconomic stability and discipline were maintained throughout the evaluation period, with low inflation and tight control over aggregate public spending. The foundations for Uganda's strong macroeconomic performance had been laid before PGBS, and balance of payment (BOP) support was crucial to this. PGBS has allowed higher levels of public expenditure and of foreign exchange reserves, facilitating cash management and the use of reserves to limit exchange rate volatility. A dialogue on macroeconomic issues with the IMF continues and PGBS disbursements are usually tied to Uganda remaining on track with the IMF.

S33. Increases in aid, and PGBS insofar as it has facilitated a rapid expansion in aid, have contributed to an increase in the costs of budget financing, as the GOU has chosen a sterilisation strategy which favours issuing domestic debt relative to selling foreign exchange. This strategy has been chosen because of concerns over the effect of high aid flows on export growth.

S34. Although private sector investment has increased throughout the evaluation period, high domestic interest rates, in part a consequence of the GOU's sterilisation strategy, undoubtedly have a dampening effect on the private sector. Overall, however, both private sector investment and export growth (in terms of volume at least) have been buoyant, indicating that aid-fuelled increases in public expenditure have not excessively crowded out private sector growth. The GOU is concerned to pre-empt "Dutch Disease" effects of large aid inflows, and therefore seeks to set a limit to the deficit, but issues about Uganda's absorptive capacity for aid are not specific to the PGBS modality. Although domestic revenues are low, they have been growing as a proportion of GDP and there is no evidence to suggest that PGBS has had a negative effect on total revenue collections.

S35. There is strong commitment, politically and within MFPED and the Bank of Uganda (BOU), to the maintenance of fiscal discipline and macroeconomic stability, which PGBS has supported, but did not originate.

Effects on the Delivery of Public Services

S36. PGBS funding has accelerated increases in the quantity of basic services delivered by local governments, from which the poor have undoubtedly benefited, although the targeting of those services is not always pro-poor. However, the quality of services in health and education is very weak, and undermines the benefits of expansion.

S37. Through its flexibility, PGBS has also allowed more efficient and effective resource allocation for service delivery. This manifests itself in the extent to which the GOU has been able to expand expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending.

S38. The Poverty Action Fund facilitated this, and the notional earmarking of PGBS to the Poverty Action Fund and sectors helped accelerate the change. Decentralisation has been a key reform and through facilitating increased transfers to local governments PGBS funds had a hand in strengthening new institutional relationships in service delivery and building institutional capacity in local governments (LGs). However, LGs have been given only limited autonomy over the funds provided, which has undermined the responsiveness of those services.

S39. Other PGBS inputs have helped to support some of the reforms and initiatives relating to delivery, especially at the sector level, and most sectors have developed clearer policy frameworks and strategies for implementation. However, policy dialogue, TA and CB have not been given attention commensurate with their importance to local government institutional issues or to service provider–client relationships as means of improving the quality and accountability of services. There has been inadequate focus on strengthening service delivery institutions, beyond increasing the inputs available to them.

Effects on Poverty Reduction

S40. The proportion of Ugandans below the national poverty line fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003. The causes of these trends, and the robustness of the data, are matters of debate. There are significant regional variations, with poverty remaining exceptionally high in the conflict-affected North. The influences on income poverty include many factors besides government action and aid flows, and it would be inappropriate to ascribe trends in either direction simply to the poverty reduction strategy that PGBS has supported.

S41. However, PGBS has made some impact. PGBS has made a major and efficient financial contribution to the expansion of service delivery that the poor have been able to access, although weak quality is undermining the benefit accrued from those services. PGBS funds contributed to a generally positive macroeconomic environment which has supported income growth, but otherwise the PGBS influence on income poverty is limited. The domination of the social-service-driven agenda early on in the evolution of PGBS has limited the room for promoting public sector action which promotes income generation and growth. However, non-financial inputs have fostered policy review, which has highlighted the need to pay more specific attention to service delivery quality and income poverty in future.

S42. PGBS has supported decentralisation which is intended to encourage participative decision-making, but the impact on empowerment of the poor is not conclusive. There have not been significant improvements in the administration of justice or human rights, and people affected by conflict in north Uganda have received limited attention.

The Sustainability of PGBS

S43. The mechanisms for managing PGBS and for monitoring it, in the context of overall monitoring of the national poverty reduction strategy, are continuing to evolve in response to experience, and are strongly rooted in national systems for planning and budgeting. Further convergence is likely as the PRSC performance matrix is more directly drawn from the PEAP. In Uganda there are mechanisms for monitoring the three main flows of PGBS; however, there is an imbalance in monitoring. Expenditure-level and outcome-level monitoring are well developed, but routine data collection on the direct results of public sector action is limited and this limits the scope for evidence-based decision-making. It is important to strengthen the specification and monitoring of intermediate links so that the implementation and effectiveness of policies can be followed up.

S44. The scope for involvement of IPs in policy processes and the nature of those processes at the sector and cross-sector levels provide substantial scope for shared learning, but short institutional memory on the side of IPs undermines this somewhat. Systems for providing feedback through sector review mechanisms and the PRSC steering committee are well established. However, the apparent reduction in political involvement in these processes does not augur well for sustainability. In addition, concerns about political transition and corruption make their Uganda aid harder for IPs to justify to domestic audiences. PGBS, because it is not earmarked, is regarded as especially vulnerable to criticism.

S45. Threats to the effectiveness of PGBS may come from a weakening of the coalition of interests between the presidency, MFPED and donors. Sustainability, and continued positive effects from PGBS, will depend on graduated responses linked to a realistic appreciation of the limits of donor influence.

Part C: Cross-Cutting issues

S46. In general, PGBS has proved a useful complement to other aid instruments in addressing a range of cross-cutting issues, with these issues being integrated into the PEAP and forums for dialogue established.

Policy CCIs

S47. *Gender* issues are addressed and mainstreamed more systematically in Uganda than in many countries and existing government structures have been used rather than parallel structures. The PEAP dialogue has embraced dialogue on gender, and there is a donor group which deals with gender issues, and engages on these matters.

S48. *Environment* issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001. PRSCs have included actions relating to strengthening environmental institutions, but they remain weak and are lent limited budget priority.

S49. Uganda was one of the first countries, with a strong political lead, where *HIV/AIDS* prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP, and there is controversy over the extent to which global funds can be accepted, given the government's macroeconomic ceiling.

Public and Private Sector Issues

S50. As highlighted earlier, there was an early bias in PGBS towards social sector service delivery, although MFPED always emphasised the importance of macroeconomic stability for fostering private sector investment and growth. Successive PEAPs and PRSCs have given greater attention to issues of economic growth and private sector development, but the expansion of initiatives such as the Agricultural Advisory Services is constrained because resources have been pre-empted by basic public services.

Government Capacity and Capacity Building

S51. There has been limited systematic capacity building of government institutions, although PGBS funding, through its effect on public expenditures, has served to improve the incentives for institutions to build their capacity.

S52. Donor TA/CB have been the least well specified inputs of PGBS, and there has been little improvement in the coordination and targeting of such activities as a result of PGBS. There has been an absence of coherent capacity-building strategies within government, while there are large variations of capacity in central and government institutions. TA/CB support has been carried out differently in different sectors in central government and tends to be fragmented. More innovative approaches to capacity building have been attempted at the local government level, and linked to incentives to access grants with some success, but there remains a lack of technical support to new policy initiatives. There is therefore scope for greater complementarity between PGBS funds and TA/CB inputs.

S53. PFM has been a natural focus for PGBS-linked capacity development, but LG capacity is crucial to effective service provision and should receive more emphasis.

S54. It is important for donors to reinforce the capacity gains that have been made, and not undermine them by a reversion to parallel systems.

Quality of Partnership

S55. On balance Uganda supports the contention that PGBS conditionality is qualitatively different from earlier structural adjustment approaches. The role of conditions is mainly as information signals to constituents, and they provide impetus to technical reforms only when they have support within government; it remains clear that conditions do not simply "buy reform" or "make things happen". PGBS used existing sector dialogue structures and budget dialogue rather than create separate ones, which has helped ensure greater consistency and complementarity of different aid instruments.

S56. As PGBS is disbursed using government systems, it costs less to administer, and joint PRSC and sector dialogues reduce duplication, although they can be unwieldy. However, recent increases in project support means that transaction costs, in aggregate, may not be falling.

Political Governance and Corruption

S57. The interaction between PGBS and other aid modalities is an important influence on the overall effectiveness of aid. The pursuit of mixed project/PGBS strategies in some sectors limits the benefits from PGBS. The GOU and IPs should review the appropriate balance between aid instruments in each sector.

S58. "Governance" covers a spectrum of political and technical issues which have become increasingly important in the relationship between the GOU and IPs over recent years. Performance against governance criteria is difficult to measure objectively, but there has been a growing gap between GOU performance and IP expectations (some of which were based on an initial misreading of Ugandan politics).

S59. Many aspects of governance, including human rights, are addressed in the PEAPs, but political ownership of the PEAPs has been diminishing. Efforts by bilateral donors to raise governance concerns through a "governance matrix" have had limited success. At the same time, the potential for political crises to undermine the relationship seems to be increasing. PGBS offers opportunities for engagement with GOU on a range of governance issues, but it cannot buy governance reforms that threaten key political interests.

S60. Corruption is especially corrosive of IP support for PGBS, but there has been more success in strengthening basic PFM systems and increasing transparency than in high-profile anti-corruption legislation. It should not be assumed that PGBS is automatically more vulnerable to corruption than other forms of aid. Safeguards in delivery of PGBS are important, but it also offers opportunities to strengthen GOU fiduciary systems.

S61. Many of the reforms and capacity improvements supported by PGBS are equally relevant to the accountability requirements of domestic stakeholders as well as IPs, though IPs need to be careful not to overshadow domestic stakeholders.

Part D: Synthesis – Overall Conclusions and Recommendations

Overall Assessment

S62. Our overall assessment is positive. PGBS has been an effective means of supporting a relevant national poverty-reduction strategy. It enabled the GOU to expand the delivery of basic services to the poor through decentralised bodies quicker than otherwise would have been the case. There have, on balance, been gains in both allocative and operational efficiency, including a reduction in the transaction costs of utilising aid. PGBS funds, combined with other inputs, have had some important systemic effects on capacity, particularly in strengthening the planning and budgeting system by making discretionary funds available. There were also positive effects on the harmonisation and alignment of aid. The Poverty Action Fund and the system of notional earmarking were very useful devices in demonstrating the purpose and uses of aid without incurring the inefficiencies of prescriptive earmarking. It is highly implausible that the same level and effectiveness of expenditures could have been achieved through other modalities alone.

S63. There were elements of good fortune in the timing of PGBS, and in its ability to build on systems for linking policies and budgets that MFPED had already developed. The scale of PGBS flows was important in giving the government budgeting system a decisive influence.

S64. PGBS has been more of a partnership than previous conditionality, and has helped to extend GOU ownership across modalities. The focus on government systems has helped to strengthen transparency and raise some fiduciary standards, although fiduciary risks remain high. In hindsight, Uganda's strategy of expanding basic public services paid too little attention to income-generation and to the quality and pro-poor targeting of public services. The pace of expansion inevitably had a cost in efficiency, and put the capacity and the accountability mechanisms of local governments under enormous stress. However, the systems of dialogue and policy review associated with PGBS enable such issues to be confronted, and these early imbalances are beginning to be rectified.

Future Challenges

S65. Looking ahead, the rationale for PGBS remains valid, but the political and institutional context has become more difficult. Although PGBS is essentially an instrument for long-term financial and institutional support to a national poverty-reduction strategy, it seems particularly vulnerable in the short term when difficulties arise in the relationships between IPs and an incumbent government. There is a danger that a reversion to project modalities will erode what has already been achieved. Donors and the GOU should review aid strategies more systematically, with sector-by-sector attention to the best fit between different instruments. PGBS instruments themselves need to be adapted to achieve a balance between their role as a support for long-term development strategies, and the need to be responsive to performance. We make the following recommendations, addressed to both the GOU and donors, for the future design and management of PGBS:

Safeguarding long-term stability

- R1 The GOU and IPs should try to ensure that the overall relative shift towards PGBS is maintained.
- R2 IPs should develop safeguards against a rapid and destabilising withdrawal of PGBS.
- R3 IPs should move towards a graduated response mechanism which provides credible incentives for performance and long-term predictability, protected from short-term political cuts.
- R4 IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS.
- R5 IPs should provide aid information in line with the MTEF and budget cycles and make rolling three-year commitments for GBS and other aid.
- R6 The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies; and aid strategies should ensure that one instrument is not disproportionately more vulnerable than another to short-term cuts.

Design of aid and PGBS instruments

- R7 The GOU needs to develop a more elaborate aid policy (beyond the order of preference of aid instruments given in the Partnership Principles), instead highlighting the roles, and the good practice design features, of different aid instruments.
- R8 A set of operational principles and guidelines for PGBS should be developed, and IPs should adhere to these guidelines.
- R9 In this context the balance between instruments in each sector should be reviewed.
- R10 Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.

- R11 The GOU and IPs should agree a common disbursement schedule for all PGBS (one or two tranches a year) and stick to it.

The focus of dialogue and conditions

- R12 Continue to develop sector-style processes for strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, public sector reform, PFM), and in sectors without SWAp processes.
- R13 The PRSC dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it.
- R14 IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible.
- R15 Continue to increase the profile of productive and private sector issues, including the expansion of growth-promoting initiatives.
- R16 Continue to shift attention in the dialogue towards service quality and income generation.

Accountability

- R17 The GOU and IPs should develop a strategy for building accountability systems to domestic stakeholders which reflect domestic democratic interests yet also satisfy IP demands.
- R18 Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.
- R19 Take care to ensure that policy processes provide room for the voices of domestic constituents, including Parliament as well as civil society, to be heard in the dialogue.

Capacity development and focus

- R20 In the context of "sector" processes in cross-cutting areas such as PFM, decentralisation and public sector reform (see above):
- (a) Develop capacity-building strategies for reform in these areas.
 - (b) Align TA/CB and other institutional support to these strategic plans.
- R21 Increase the relative focus on systemic PFM issues at local government level.
- R22 At sector level, shift the balance more towards building capacity of service providers, not just continued service expansion.
- R23 Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity.

Using PGBS efficiently

- R24 MFPED should reinvigorate the budget challenge to promote efficiency.
- R25 The definition of pro-poor expenditures should be revisited regularly so they do not stagnate.
- R26 Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives
- R27 Assess Uganda's long-term absorptive capacity for aid, and investigate the efficiency of GOU sterilisation choices.
- R28 Ensure that monitoring covers implementation activities and intermediate results as well as final outcomes.

Donor selectivity

- R29 Donors should be sensitive to the role conditions can usefully play, and choose conditions where signals are needed and success is likely.
- R30 Donors should improve their capacity to engage fruitfully in the dialogue, e.g. by:
- (a) focusing on fewer sectors and issues of engagement;
 - (b) ensuring more consistency and coherence in policy across sectors;
 - (c) making more use of delegated cooperation;
 - (d) maintaining staff in post for longer;
 - (e) giving staff early training on the details of how Uganda's systems work;
 - (f) developing greater understanding of the political economy of reforms.

PART A: CONTEXT/DESCRIPTION

A1. Introduction and Conceptual Framework

Introduction

A1.1 Uganda is one of seven case studies in a joint evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but is also intended to be a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Uganda. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology for the multi-country evaluation are in the Inception Report (IDD & Associates 2005).

Objectives and Approach to the Evaluation

What is General Budget Support?

A1.2 Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. General Budget Support (in contrast to sector budget support) is not earmarked to a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, TA and CB, and efforts at harmonisation and alignment by the international partners (IPs) providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget; therefore they could also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent.

A1.3 A new rationale for general budget support emerged in the late 1990s, closely linked to the development of poverty-reduction strategies. So-called "new" or "Partnership" GBS focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions. The range of expected effects from Partnership GBS is very wide. The Terms of Reference (TOR)¹ for this study draw attention to:

- improved *coordination* and *harmonisation* among IPs and *alignment* with partner country systems (including budget systems and result systems) and policies;
- *lower transaction costs*;
- *higher allocative efficiency of public expenditures*;
- *greater predictability* of funding (to avoid earlier "stop and go" problems of programme aid);
- *increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems;
- *improved domestic accountability* through increased focus on the Government's own accountability channels.

¹ The full Terms of Reference are annexed to the Inception Report (IDD & Associates 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the Terms of Reference:

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on more recent Partnership GBS (PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different IPs' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

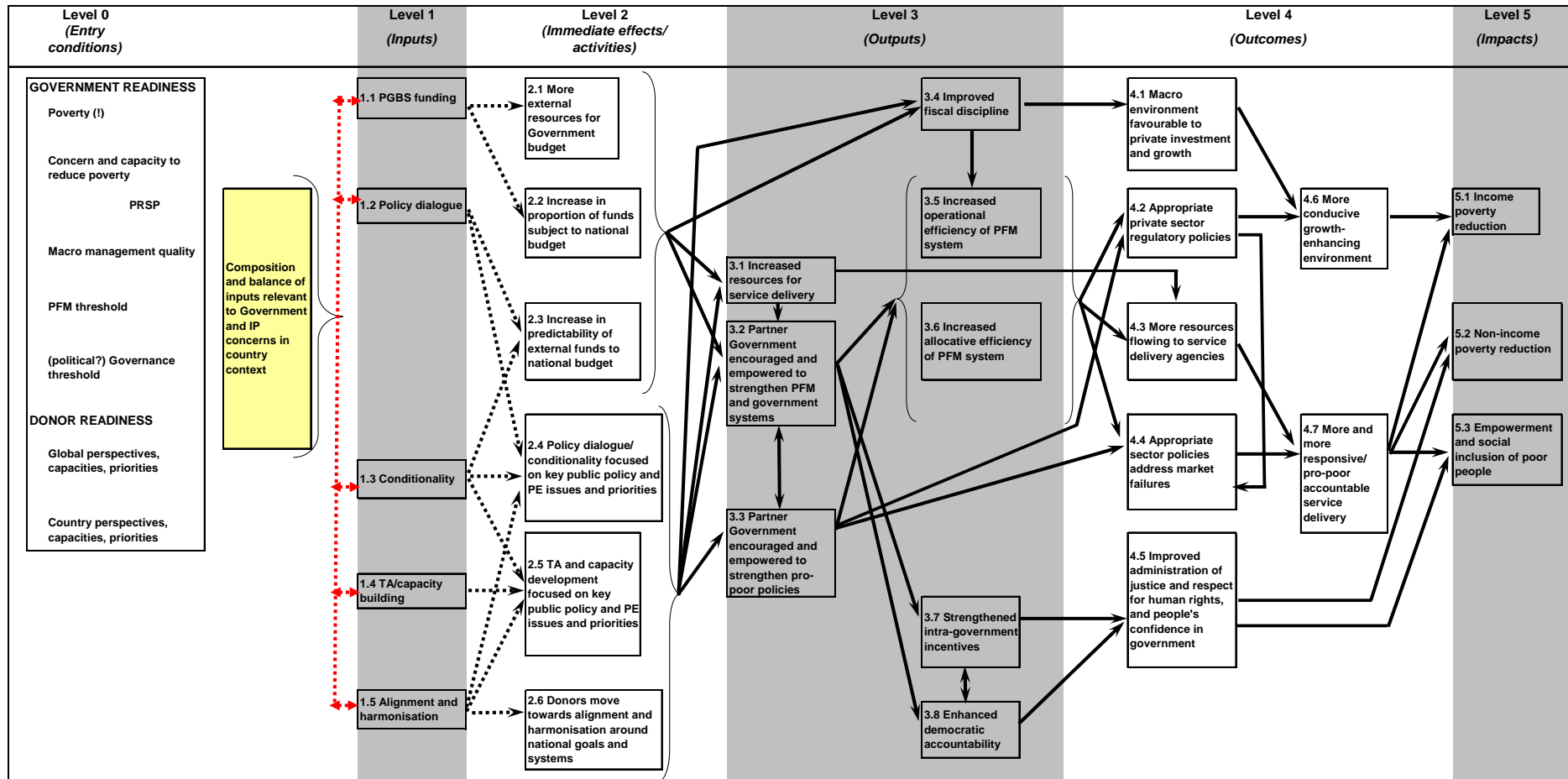
Evaluation Methodology

A1.6 The evaluation is based on a specially developed methodology which has been further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the OECD's Development Assistance Committee (DAC) – relevance, effectiveness, efficiency, impacts and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
 - Level 1: the inputs (funds, plus dialogue and conditionality, harmonisation and alignment, TA and CB);
 - Level 2: the immediate effects (activities);
 - Level 3: outputs;
 - Level 4: outcomes;
 - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effect: flow-of-funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals, and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a Causality Map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries, and all seven country reports follow the same structure based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used in addressing the evaluation questions posed in Part B of the report. This is explained in Annex 1A. The TOR require special attention to gender, environment, HIV/AIDS, and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Uganda. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Uganda.

Box A1.1: Structure of the Country Report

Executive Summary

Part A: Context/Description

- A1. Introduction and Conceptual Framework
- A2. The Context for Budget Support in Uganda
- A3. The Evolution of Partnership GBS in Uganda

Part B: Evaluation Questions: Analysis and Main Findings

- B1. The Relevance of Partnership GBS
- B2. The Effects of Partnership GBS on Harmonisation and Alignment
- B3. The Effects of Partnership GBS on Public Expenditures
- B4. The Effects of Partnership GBS on Planning and Budgeting Systems
- B5. The Effects of Partnership GBS on Policies and Policy Processes
- B6. The Effects of Partnership GBS on Macroeconomic Performance
- B7. The Effects of Partnership GBS on the Delivery of Public Services
- B8. The Effects of Partnership GBS on Poverty Reduction
- B9. The Sustainability of Partnership GBS

Part C: Cross-Cutting Issues

- C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
- C2. Public and Private Sector Issues
- C3. Government Capacity and Capacity Building
- C4. Quality of Partnership
- C5. Political Governance and Corruption

Part D: Synthesis – Overall Conclusions and Recommendations

- D1. Overall Assessment of PGBS in Uganda
- D2. PGBS in Uganda – Future Prospects
- D3. Summary of Conclusions and Recommendations

Bibliography

Annexes

- 1. Approach and Methods
- 2. Country Background
- 3. Aid to Uganda
- 4. Public Finance Management
- 5. Summary of Causality Findings
- 6. Decentralisation and PGBS in Uganda

The Evaluation in Uganda

A1.9 The Uganda study involved two field trips, a two-week inception visit in late November and early December 2004, followed by another three-week field visit in June 2005. A team of five people undertook the evaluation; four of the team were involved in both visits.

A1.10 Both field visits involved a combination of stakeholder interviews and data collection. The second visit involved rigorous collection of information to answer the evaluation questions in the EEF, which had been finalised and agreed in the Inception Report of May 2005 (IDD & Associates 2005). The majority of interviews were held with government institutions, donor representatives and civil society. All key cross-cutting ministries were visited, but, rather than attempt to visit all sector ministries, the team decided to focus on the agriculture and education sectors, although discussions were also held with stakeholders in the health sector. The Uganda study also involved an investigation into the effects of PGBS on decentralisation (Annex 6), and two district local governments, Mubende and Kibale, were visited during the second visit. The field visits were supplemented by a review of the substantial body of secondary literature on Uganda. See Annex 1B for further details on approach and methodology and a list of institutions consulted.

A1.11 The study benefited from focal points within the Budget Directorate of the Ministry of Finance, Planning and Economic Development, and the donor economists group. Two workshops were held, towards the end of each visit, attended mainly by government and donor officials. The first, in December 2004, introduced the evaluation objectives, the original methodology, and initial lines of investigation. The second, in July 2005, presented initial findings of the evaluation.

A1.12 The GBS Evaluation Steering Group provided feedback on both the Inception Report and the Draft Country Report. The final draft of the Report has taken these comments into account.

A2. The Context for Budget Support in Uganda

Overview

A2.1 In the 1960s, immediately after independence, Uganda's economy was vibrant and promising. However, the situation soon degenerated and Uganda suffered decades of conflict and misrule, during which the economy regressed and living standards declined. In 1986 the present National Resistance Movement (NRM) government took power, led by Yoweri Museveni. This ushered in a more peaceful period, during which there has been stability and growth. Museveni soon established good relations with the donor community. Over the last decade Uganda has been a pioneer in a number of developmental innovations: it was the first country to qualify for Heavily Indebted Poor Countries (HIPC) debt relief, its own poverty strategy anticipated the now-standard Poverty Reduction Strategy Papers (PRSPs), and it was the first recipient of a World Bank Poverty Reduction Support Credit (PRSC).

A2.2 Uganda was therefore a pioneer in the development of PGBS. In many respects it set a pattern that others have imitated. Recognisable PGBS began as early as 1998, with the creation of the Poverty Action Fund (PAF). Budget support, alongside HIPC debt relief, was notionally earmarked² to priority poverty-reduction programmes through the GOU budget, along with earmarked sector budget support linked to sector programmes in education and then health. The next important innovation was the introduction of the PRSC in 2001; this was full unearmarked GBS.

A2.3 However, recent concerns over governance, including corruption, human rights, and the pace of democratic reforms, have eroded Uganda's standing with its international partners (IPs), and have led to some bilateral donors cutting budget support disbursements.

A2.4 This chapter provides a brief background on poverty and the GOU's poverty-reduction strategy, macroeconomic management, public finance management (PFM), governance and aid flows. In doing so, it sets out Level 0 of the evaluation framework – the entry conditions and environment for continued provision of budget support.

Poverty and Poverty Reduction Strategy

Uganda's Economy and Poverty

A2.5 Economic growth has averaged over 6% over the last 15 years, and has been accompanied by significant reductions in income poverty. Headcount poverty fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003.

A2.6 Uganda has been making good progress towards many of the Millennium Development Goals (MDGs) (see Annex 2, Table 2A.2). There have been marked improvements in primary enrolment levels, girls' enrolment, and survival rates. There were improvements in rural safe water coverage, from 50% in 2000 to 60% in 2004 (Table 2A.1). Although the HIV/AIDS pandemic had a devastating impact on the Ugandan population throughout the 1990s, there

² For detailed explanation of different forms of earmarking, see Box B1.2 in Chapter B1 below.

were dramatic reductions in HIV prevalence from around 20% to below 10% in 2000 and further to about 7% in 2004.³

A2.7 Despite this progress, Uganda remains one of the world's poorest countries, ranked 144th out of 159 countries in the Human Development Index (2005). Gains have been undermined by high population growth, which averaged 3.4% a year between 1990 and 2002.⁴ Aside from the success in combating HIV/AIDS, health outcomes have not been so favourable, with little improvement in infant and child mortality. HIV/AIDS is still the leading cause of death for the 15–49 age group, which has a major impact on the economically active portion of the population. There are significant regional variations in human development outcomes. The North is ravaged by war and its development lags behind the rest of the country, highlighting the significance of conflict. Inequality has been steadily increasing over the past 15 years.

A2.8 The population in Uganda remains largely rural at 87%, with the urban population only increasing by 1% of the population since 1992. Hence, Uganda's economy is also largely rural based, with the bulk of the workforce employed in agriculture, and this is where the vast majority of the poor are located. Despite this, monetary agriculture as a share of GDP has been steadily falling, as growth in agriculture has been below average, and now is below 40% of the economy. In agriculture's place, the shares of industry and services have been increasing, driven by increases in private sector investment and public expenditure. The public sector itself, fuelled by increases in aid, has raised its share of GDP from 16% in 1994 to 23% of GDP in 2003 (International Monetary Fund (IMF) International Finance Statistics 2004). As a landlocked country, Uganda has substantial natural trade barriers. Export volumes have increased substantially over the last decade, and despite declining commodity prices in the late 1990s, exports have slightly increased their share of the economy from 11% to 14% over the last decade. As exports and aid flows have increased, so have imports, which now amount to 28% of the economy (IMF International Finance Statistics 2004).

The PEAP, Uganda's Poverty Reduction Strategy

A2.9 In the early 1990s, while targeted interventions were carried out to alleviate the adverse social costs of structural adjustment,⁵ concerns emerged about the need to address poverty issues more comprehensively, and address the fragmentation of aid. In 1995, after a forum on poverty attended by the President, a task force was established which developed Uganda's first comprehensive poverty-reduction strategy, the Poverty Eradication Action Plan (PEAP1), published in 1997. The PEAP identified four objectives or pillars (see Table A2.1 below). Within these pillars, four key priority poverty reduction programmes were highlighted: primary health care, water and sanitation, rural roads, agricultural extension, and crucially, universal primary education (UPE). Free primary education was a pledge by President Museveni in the 1996 presidential election campaign. While the PEAP was being prepared, so were sector strategies and investment plans in many of the PEAP priority sectors (education, roads, health, and water and sanitation).

³ The prevalence rate reflects the combined effect of new infections and deaths of HIV-positive people.

⁴ By the time of the 2002 census Uganda's population was 24.6 million. This rapid population growth means that over half the population is below the age of 15, and severely undermines per capita income growth.

⁵ Under the Programme for the Alleviation of Poverty and the Social Costs of Adjustment (PAPSCA).

Table A2.1: Poverty Eradication Action Plan (PEAP) Objectives

PEAP1 and PEAP2	PEAP3
<ul style="list-style-type: none"> • Framework for Economic Growth and Structural Transformation. • Ensuring Good Governance and Security. • Directly Increasing the Ability of the Poor to Raise their Incomes. • Directly Improving the Quality of Life of the Poor. 	<ul style="list-style-type: none"> • Economic Management. • Production, Competitiveness and Incomes. • Security, Conflict Resolution and Disasters. • Good Governance. • Human Development.

A2.10 The PEAP has been revised twice, and has become an increasingly important instrument for guiding sector policy and strategy, as well as GOU–development partner relations. The PEAP was first revised in 2000, through a far deeper and more consultative process, and was informed by the Uganda Participatory Poverty Assessment (MFPED 2000a), where efforts were made to solicit the views of the poor themselves as well as those sector strategies that had been developed. PEAP2 was adopted as Uganda’s Poverty Reduction Strategy Paper by the World Bank and IMF, and Uganda qualified for further debt relief under the Enhanced HIPC initiative in 2000/01. The PEAP also incorporated a set of Partnership Principles, in which Government clearly expressed that budget support was its preferred aid modality. (The present version of the Partnership Principles is reproduced as Annex 3D.)

A2.11 The third iteration of the PEAP was initiated in 2003 and published in 2004; more sophisticated than its predecessors, it was arguably also more technocratic in preparation. PEAP3 put a greater emphasis on security and income generation, amid concern over bias towards the social sectors. PEAP3 also has a more comprehensive monitoring and evaluation (M&E) strategy, supported by a matrix for monitoring its implementation, which is intended as a focus for GOU–IP dialogue, as well as for use within government.

Macroeconomic Management

A2.12 Uganda has had an impressive track record of fiscal discipline and strong macroeconomic management. Throughout the evaluation period, inflation has been kept below 10%. Early in the 1990s, just prior to the evaluation period, there was a lapse, when government failed to curtail public spending despite a sharp decline in export earnings. The Ministry of Finance, with the support of the President, quickly reasserted control over aggregate public spending, through the introduction of cash budgeting and a Medium-Term Macroeconomic Framework (see Ddumba-Ssentamu et al 1999 for the best description and analysis of this period).

A2.13 Concurrently the GOU implemented a series of policies to liberalise the economy, which included the abolition of foreign exchange controls, liberalisation of commodity markets and reduction of trade barriers. Although these reforms were associated with IMF and World Bank structural adjustment programmes, they were owned and driven by staff within the Ministry of Finance, while politicians had been convinced of their merits following macroeconomic instability early in the decades. Strong leadership within the Ministry of Finance was key to the early successes.

A2.14 Reforms in the early 1990s emphasised the need to reduce the fiscal deficit through mobilising revenues and reducing the size of the public sector. However, from 1997/98 the fiscal deficit before and after grants increased rapidly due to increased grant and loan ODA inflows. Despite this rise in public expenditures, the authorities – the Ministry of Finance, Planning and Economic Development (MFPED) and the Bank of Uganda (BOU) – have maintained monetary and fiscal discipline by ensuring that aid flows have been sterilised.⁶

Public Finance Management

A2.15 Standards of PFM – and public administration generally – were thoroughly undermined by the decades of conflict. The 1990s saw systematic efforts to rebuild PFM systems (see Annex 4B for details). IP confidence in macroeconomic management was reinforced by progress in strengthening GOU expenditure management systems, and developments in planning and budgeting systems made it progressively easier for aid to be factored in to GOU plans and budgets. The Medium Term Expenditure Framework (MTEF), introduced in 1997/98, was a major step forward in improving the overall allocative efficiency of budget allocations, and their orientation towards the PEAP. This was progressively linked to planning at sector (and later district) level. At the centre of the budget process were sector working groups, made up of sector agencies along with donor and civil society representation, which were charged with developing medium-term budget strategies within medium-term sector ceilings. The introduction of output-oriented budgeting (OOB) in 1998 also helped focus resource allocations on results (Williamson 2003). PGBS thus began in a context where general PFM standards, though not necessarily high, were clearly improving, where MFPED was both strong and purposeful, and where the links between planning and budgeting were unusually well developed.

Governance

A2.16 Uganda has always been a difficult country to hold together (see Moncrieffe 2004 for an overview of political analyses). Museveni and the NRM argued that party politics had proved lethally divisive, and introduced a democratic but "no-party" system, enshrined in the 1995 Constitution. A key part of the NRM strategy was to build political support from local levels, and this influenced both the pattern of decentralisation and the political importance attached to poverty reduction. In 1996 presidential and parliamentary elections took place under the "no-party" system of politics. At the same time, much of the structure of government has evolved directly from the legacy of the colonial administration. The President is head of the executive, and is assisted by a cabinet of ministers; the Prime Minister is the leader of government business. The Parliament is the independent legislative arm of government. The Constitution also enshrines an independent judiciary.

A2.17 Decentralisation in Uganda, as in many countries, has been both politically and technically motivated. Democracy at the grassroots through Resistance Councils was a central part of Museveni's "Movement" system from the outset. The decentralisation of basic services to local governments was also implemented on the premise that it would increase the efficiency of public expenditure and the responsiveness of services to local populations. Political and administrative decentralisation was reinforced in the 1995 Constitution and there is now a multi-tiered system of local government, with districts and municipal local governments as the main service delivery levels. Councillors are elected at the district, subcounty and village levels in rural areas, and in cities, municipalities, towns, divisions and cells in the urban authorities.

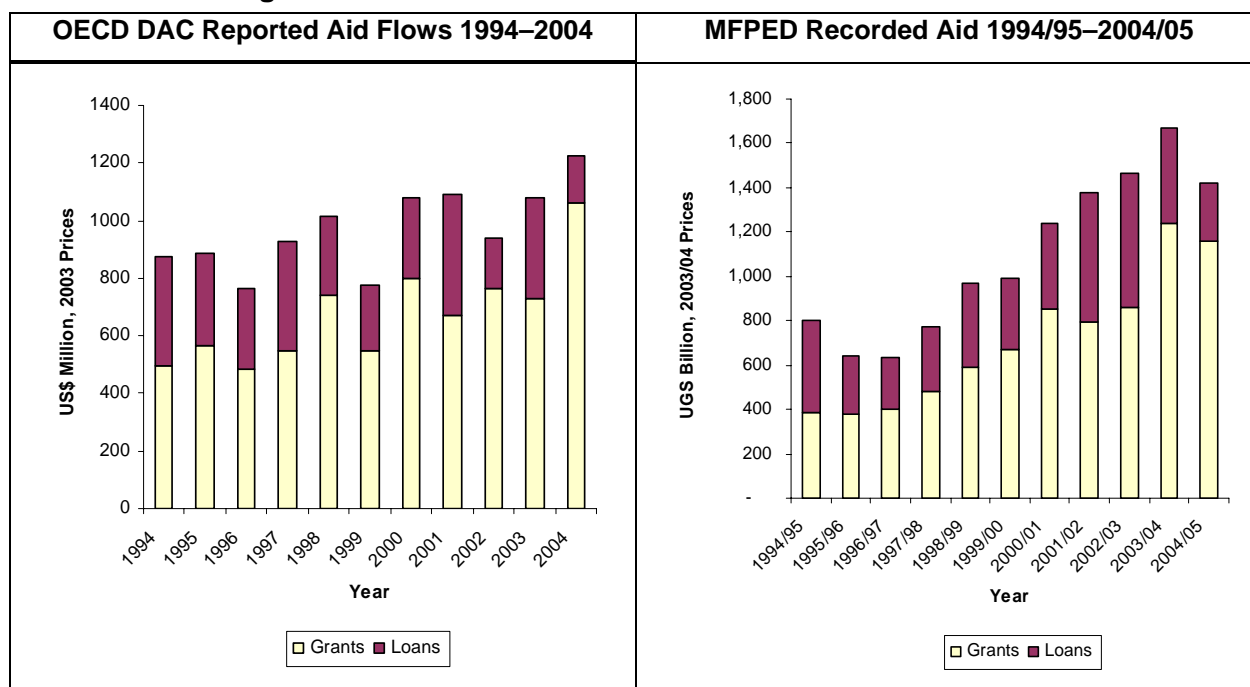
⁶ For explanation and discussion of monetary sterilisation, see Chapter B6 below, especially Box B6.1.

A2.18 In the 1990s, and early this decade, the international community was generally satisfied with the progress towards democracy, and governance in general. More recently development partners have expressed concern over the pace of political transition, and the failure of the government to tackle high-level corruption, which is perceived to be increasing. The persistence of the war in the North of Uganda, incursions of the army into the Democratic Republic of Congo (DRC), and the associated problems relating to human rights and an increase in defence spending have also been matters of increased concern. In July 2005 a referendum endorsed allowing representatives of political parties to stand in future elections, but the international community is unenthusiastic about the simultaneous constitutional amendment which has abolished term limits for the presidency. Events in the run-up to the February 2006 presidential elections have further brought into question the GOU's commitment to multi-party politics and a December 2005 ruling by the International Court of Justice finding Uganda guilty of looting and abuses in the DRC (International Court of Justice 2005). has worsened the deteriorating relationship between President Museveni and the international community.

Aid Flows

A2.19 Uganda is a highly aid-dependent country. Over the evaluation period, aid flows averaged 11% of GDP, and 50% of public expenditure. According to GOU statistics on-budget aid flows have increased from a low of USD 460m in 1995/96 to USD 800m in 2003/04, while according to OECD DAC figures, overall ODA has increased from USD 800m in 1994 to USD 1,060m in 2003 (OECD 2005). The OECD DAC figures show aggregate levels to be more erratic than the GOU budget figures, but the trend is consistent (see Figure A2.1). In real UGS terms aid flows have increased far more markedly, from UGS 600bn in 1995/96 to a high of over UGS 1.7 trn in 2003/04, which represents an increase of over 280%.

Figure A2.1: OECD DAC and MFPED Aid Data 1994–2003

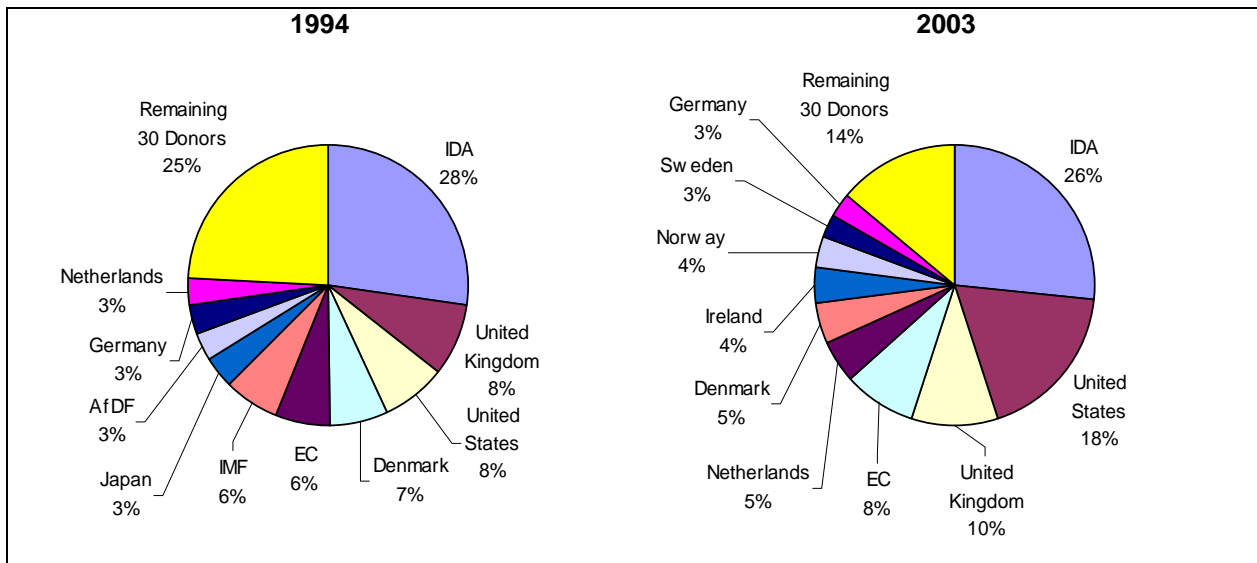


Source: OECD DAC.

Source: Ministry of Finance.

A2.20 Throughout the period the aid environment has been very congested, with around 40 donors providing ODA each year to Uganda. However, most ODA is provided by a small group of donors, and these larger donors have been increasing their share of ODA to Uganda. In 1994 the 10 largest donors provided 76% of ODA, while in 2003 they provided 86% (OECD DAC). The largest donor has consistently been the World Bank, which has provided 25–30% of ODA to Uganda, with the EC as the second-largest multilateral donor. The two largest bilateral donors have been the UK and the USA, while the Nordic donors and Germany have consistently been the other major bilateral donors (see Figure A2.2).

Figure A2.2: Major Donors to Uganda in 1994 and 2003 (% of total ODA)



Source: OECD DAC.

A3. The Evolution of Partnership GBS in Uganda

Introduction

A3.1 In this chapter we set out the context from which budget support emerged, and the main features in the move to and evolution of the various types of budget support. Uganda, in particular, is a case where PGBS instruments have changed over time.

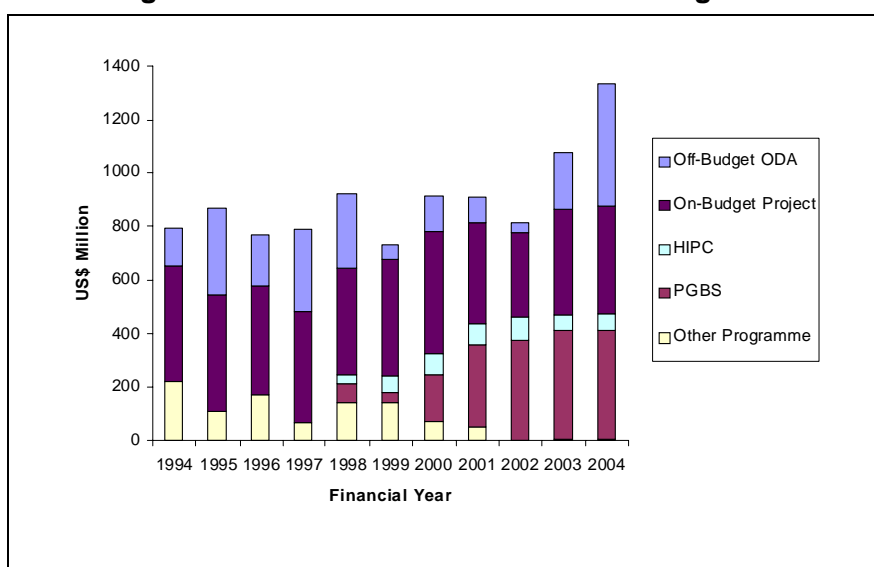
Box A3.1: Timeline of Key Events in the Evolution of Aid and PGBS

▼ New Constitution; Forum On Poverty; Multilateral Debt Fund	▼ PEAP1; MTEF	▼ First unearmarked GBS to Poverty Action Fund	▼ First PRSC (full GBS); Partnership Principles						
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
			▲ Poverty Action Fund; HIPC; sector GBS; first SWAP in Education; OOB		▲ PEAP2; enhanced HIPC				▲ PEAP3; PRSC chair to Office of Prime Minister; PEAP Matrix

Trends in Aid Modalities in Uganda

A3.2 Uganda has always had substantial flows of programme aid, comprising a relatively large share of ODA (see Figure 3.1 below and the standard summary Table 3A.1 in Annex 3A). In the early 1990s, as Uganda attempted to stabilise the macroeconomic situation, donors provided substantial levels of programme aid absolutely and relative to other forms of aid. In 1994 programme aid amounted to 43% of on-budget aid flows. The bulk of programme aid took the form of balance of payments support, including World Bank and IMF structural adjustment lending. Ex ante conditions were placed on structural adjustment support, associated with the liberalisation and privatisation agenda, which Uganda successfully implemented, largely because of political support to those reforms.

Figure A3.1: Trends in Aid Modalities in Uganda



Source: OECD DAC (2006) and MFPED Development Assistance Reports (1994–1999) and Budget Performance Reports (2000–2005) See Annex Tables 3A.1 and 4A.1.

A3.3 Throughout the 1990s project support was the dominant modality for providing aid. Up until 1997, project aid remained fairly stable in real terms. In the first half of the 1990s the majority of project support was oriented towards productive sectors, including infrastructure, agriculture and energy. In the early 1990s social interventions in the form of project support were largely focused on alleviating the costs of structural adjustment. From the mid 1990s, as the focus of attention shifted towards broad-based poverty reduction, there was a shift towards mainstream social services and other sectors, including public administration. However, before the move towards sector wide approaches in the late 1990s, project aid was largely uncoordinated.

A3.4 As the structural adjustment programmes were successfully implemented and export earnings recovered, the need for balance of payments support receded, and consequently the amount of programme aid was declining at the beginning of the evaluation period. The decline in balance of payments support was followed by increased debt relief from bilateral donors through the Multilateral Debt Fund (MDF), which corresponds with a recovery of programme aid from 1995/96 to 1997/98. Through the MDF, Nordic donors supported foreign debt repayments, which helped increase the resources available to government to allocate to social sectors. Against the background of this support, and with continued increases in domestic revenues, the Government was able to launch major new policies at the heart of PEAP1 such as UPE in 1997. In addition to Education, reform processes and sector wide approaches were also established in Roads and Health. This involved the development of sectoral strategies and plans, and efforts to align donor assistance towards them.

A3.5 In 1998 Uganda first benefited from HIPC debt relief, and between 1998 and 2000 there was a rapid increase in aid flows, associated with increasing donor confidence in GOU reforms, and the emergence of PGBS. Although HIPC helped to maintain the share of programme aid above a quarter of aid flows, project aid continued to be the dominant aid modality, and increasing coherence in projects was achieved through sector wide approaches.

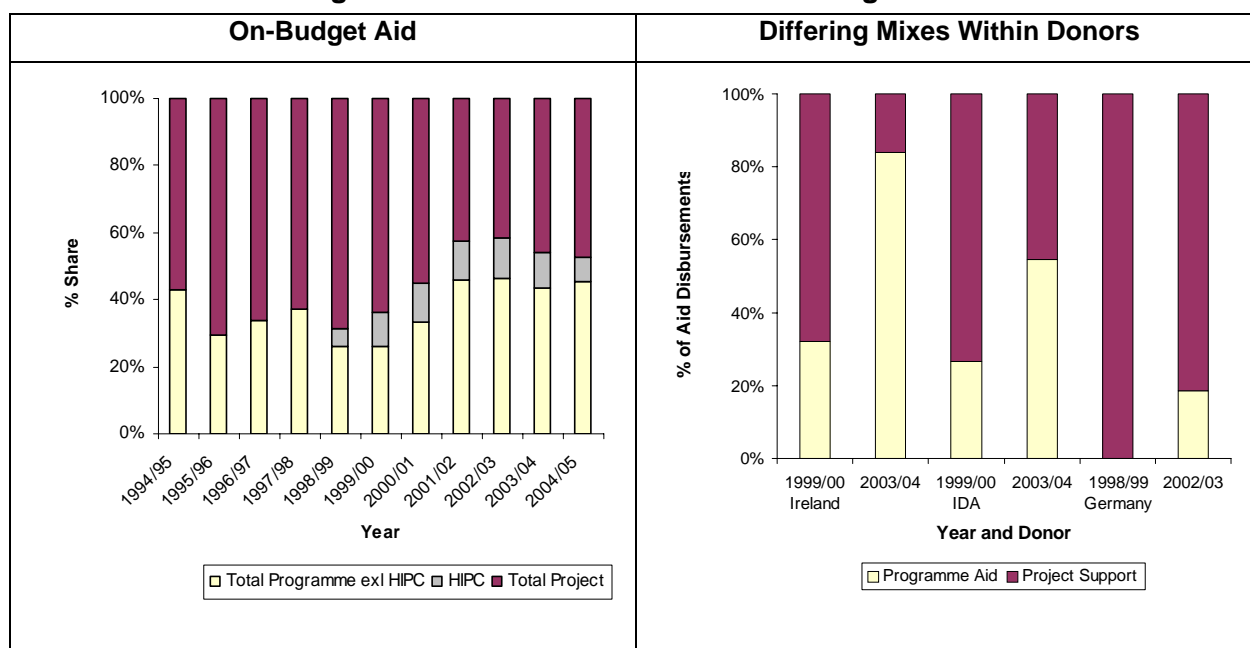
A3.6 After a decade of successful macroeconomic and public sector reforms and associated poverty reduction there was a very positive relationship between the GOU and its international partners (IPs) in 2000. Donors quickly bought into the paradigm of providing budget support linked to the implementation of sector strategies and the PEAP. Therefore between 2000 and 2003 there was a large absolute and relative increase in programme aid as an increasing number of donors shifted to using budget support, combined with a stagnation in UGS terms of project support. Overall aid flows continued to increase substantially and by 2002 programme aid was well over 50% of on-budget aid flows. Since 2002, levels of budget support have been relatively flat as a share of total aid, although the value and share of HIPC has begun to decline. In an environment of global health initiatives and renewed interest in road construction, the share of project aid has begun to increase again.

A3.7 Figure A3.1 shows substantial flows in off-budget aid. Although this may be due to the differences in reporting to GOU and the OECD DAC, there were substantial off-budget flows between 1994 and 1998, which declined significantly between 1998 and 2002. This indicates increasing comprehensiveness of the budget, which may have been a result of initiatives such as the MTEF and sector wide approaches. However, since 2002 there appears to be a large increase in off-budget aid flows again. The reasons behind this are unclear.

A3.8 While overall there has been a decisive relative and absolute shift towards budget support since 1998/99, there is a wide variety of approaches among donors in terms of their mix of aid instruments (Figure A3.2). Some donors such as Ireland and the UK have moved predominantly to programme aid, while other bilateral donors, such as Germany, provide only a

small portion of their ODA as programme aid. The World Bank has shifted emphasis towards programme aid, but it still provides almost half its support through projects.

Figure A3.2: Mix of Aid Instruments in Uganda



Source: MFPED.

Source: Donor Questionnaire.

Innovations in Aid Management and the Evolution of PGBS

A3.9 Prior to PEAP1, Uganda's aid was fragmented and poorly coordinated, despite generally positive relationships with the donor community. The preparation of the first PEAP was, in part, a reaction to this problem. There was a realisation that the aid architecture needed to be oriented towards the implementation of the PEAP, and the latter half of the 1990s saw the Uganda government take various innovative steps in aid management, such as the introduction of sector wide approaches (SWAs), the Poverty Action Fund, and the development of the Partnership Principles in the context of PEAP2. In combination, these three initiatives have helped provide the frameworks within which GBS has evolved in Uganda.

Aid Management in the Context of Sector Wide Approaches and the MTEF

A3.10 The first area was the use of SWAs to align donor and budget resources toward sector strategies. The MTEF and sector working group process was used as a means of orienting all sector resources towards these strategies, including donor project funding. Joint sectoral review processes were an important element of these SWAp processes in starting a policy-focused dialogue between donors and government, as well as other sector stakeholders, including civil society. At these reviews, progress in sectoral reforms and implementing sectoral plans was discussed, and agreements reached on how best to implement sector strategies. Donors increasingly began to organise themselves into sector groups, and agree common positions on various policy issues in the sector dialogue with the GOU.

A3.11 This dialogue and the budgetary processes helped donors align their projects towards sector strategies. Also in the education sector and later the health sector, they provided a platform for donors to start to provide more flexible support for these plans in the form of notionally earmarked sector budget support. DFID was an early mover, providing budget support

to the Education Sector Investment Plan in 1998, while Ireland and the Netherlands supported classroom construction through the Schools Facilities Grant. However, in the roads sector the dominant financing instrument remained project support.

The Poverty Action Fund and Notionally Earmarked Budget Support

A3.12 The second important innovation was the introduction of the Poverty Action Fund (PAF), when Uganda first benefited from HIPC debt relief in 1998. There were two main reasons for the introduction of the PAF. The first was to demonstrate to international and domestic stakeholders that savings from debt relief were being channelled as additional resources to priority PEAP sectors, to allay fears that the funds would be misused. In addition, HIPC relief made Uganda's debt situation officially sustainable, but it did not want to lose the support it was already receiving from Nordic donors for foreign debt repayments under its Multilateral Debt Fund (MDF); the PAF was intended as an alternative channel for these funds too.

A3.13 The Poverty Action Fund ensured that an amount equivalent to HIPC and donor resources was transferred as additional allocations to the "pro-poor sectors". The government identified key expenditure lines in the budget, consistent with these sectors. In the "PAF budget", the additional resources from HIPC and donors were matched with equivalent increases in budget allocations to these budget lines, above the base year of 1997/98 (the year before the PAF was created). The PAF budget allowed the Ministry of Finance to demonstrate the additional nature of the debt relief and donor resources, and donors were able to "see" the impact their resources were having on budget allocation. The majority (about 75%) of the additional PAF resources were allocated to local governments as earmarked, conditional grants. The PAF was not a separate fund, but is a subset of the overall MTEF and GOU budget.

A3.14 The government also used the PAF as a mechanism to improve budget management and enhance the accountability of expenditures. The government guaranteed that all budgeted resources would be made available in full for disbursement to PAF programmes, regardless of resource shortfalls, and committed itself to increasing the accountability and transparency of PAF expenditures. In order to demonstrate that funds were being disbursed in full, releases to programmes were published and sectors were required to report quarterly on actual progress in the implementation of PAF programmes. Quarterly PAF review meetings were held in public to discuss PAF performance, to which civil society organisations, donors and the press were all invited, alongside representatives from government agencies. 5% of all PAF resources were allocated specifically to improving monitoring and accountability, in order to enable central government institutions to carry out their mandate for monitoring effectively.

Box A3.2: Elements of the Poverty Action Fund in 1997/98

- **Special treatment** – the PAF identified and gave special treatment to specific pro-poor sectors/sub-sectors/programmes in the budget.
- **Matching resources to expenditures** – a PAF table matched specific resources from HIPC, donors and the government to the budget allocations for PAF programmes.
- **Additionality of resources** – PAF resources were shown as additional to the government's own budget allocations to PAF programmes in the 1997/98 budget.
- **Protection of disbursements** – PAF programmes were protected from cuts during budget implementation.
- **Reporting and transparency** – there were specific requirements for the government to report on disbursements on PAF programmes, and progress in implementation. Reports were made public and discussed in open quarterly meetings, where civil society, the press and donors were present.
- **Monitoring** – 5% of PAF funds were set aside for enhanced monitoring and accountability.

A3.15 Although this was not an original aim, the PAF became instrumental in the donors' shift from project to budget support. The PAF demonstrated the government's commitment to poverty reduction through the allocation of the budget to poverty-oriented activities. The PAF provided donors with a level of comfort that the overarching MTEF did not provide – in terms both of allocation and protection of the PAF, and also of transparency and accountability. Notional earmarking was an attractive prospect for donors, as it made their funding visible, inasmuch as MFPED could demonstrate a shilling for shilling increase in the overall PAF budget or to a budget line which the donor was interested in funding. MFPED could also demonstrate that these funds were disbursed. This enabled donors to provide support for the government budget, earmarked specifically for PAF programmes in general (e.g. the Netherlands and the EC) or to sectors within it (such as the Irish and classroom construction, and the Belgians with primary healthcare), or a combination of both. These budget support programmes tied themselves to the commitments made by the GOU under the PAF, and also, where relevant, the respective SWAp processes.

Partnership Principles and Unearmarked General Budget Support

A3.16 The third innovation was the introduction of a set of Partnership Principles in 2001 in the context of the second iteration of the PEAP, and the move by the World Bank and DFID to unearmarked General Budget Support. In this influential document, the GOU set out a framework for managing dialogue and financial aid. Most importantly, the partnership principles clearly stated that the GOU's preferred form of aid was unearmarked GBS, followed by budget support earmarked to the PAF, then sector budget support and finally project support.

Box A3.3: Summary of Partnership Principles (PEAP2 2001)

Government will:

- continue to increase its focus on poverty eradication
- continue with increased tax effort
- assume full leadership in donor coordination
- decline any offers of stand alone donor projects
- strengthen monitoring and accountability
- continue to improve transparency and combat corruption
- continue to strengthen district capacity
- develop comprehensive, costed and prioritised sector wide programmes, eventually covering the whole budget
- further develop participation and coordination of all stakeholders (including parliamentarians)
- strengthen capacity to coordinate across government

Donors will:

- jointly undertake all analytical work, appraisals, reviews
- jointly set output/outcome indicators
- develop uniform disbursement rules
- develop uniform and stronger accountability rules
- ensure all support is fully integrated into sector wide programmes and is fully consistent with each sector programme's priorities
- continue to increase the level of untied sector budget support
- increase the level of delegation to country offices
- abolish topping up of individual project staff salaries
- end individual, parallel country programmes and stand alone projects
- progressively reduce tying of procurement

Source: PEAP Volume 3, Annex 1 (2001).

Note: the full 2003 version of the Partnership Principles is reproduced as Annex 3D.

Types, Preferences and Approaches to PGBS

A3.17 During the PEAP1 period, budget support evolved in tandem with SWAps and the PAF, without an explicit government policy on budget support, but, through its action, the GOU was clearly a leader and driver for increasing budget support. IPs have used one or a combination of three main approaches, all of which meet the definition of PGBS for this evaluation:⁷

- **Sector Budget Support** – budget support notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the PAF. This represents the largest number of budget support instruments, and has been the most popular type of budget support in terms of the number of donors that have contributed, with 13 having used the instrument up until 2004. Between 1998/99 and 2003/04 approximately USD 509m had been disbursed using this form of budget support.
- **PAF General Budget Support** – budget support that is notionally earmarked to the PAF as a whole, and not individual sectors. Five donors have taken this approach to budget support, and approximately USD 145m has been disbursed using this modality between 1998/99 and 2003/04.
- **Full General Budget Support** – full General Budget Support, which is completely unearmarked. Six donors have used full GBS as an instrument, and this includes the World Bank's PRSC. Despite the small number of full GBS donors it represents the largest amount of GBS, with USD 713m being disbursed between 1999/2000 and 2003/04.

Differing Perspectives and Approaches of Donors

A3.18 As Figure A3.1 suggests, different donors have used budget support in different ways. Some donors such as Ireland, Sweden, Ireland, Norway and DFID have progressively moved almost completely away from project support into budget support.⁸ Other donors have made substantial but not complete shifts towards budget support (e.g. the World Bank, EC). Others appear to be using PGBS either as a means to try out the instrument, or to engage in the policy dialogue, while maintaining a large portfolio of projects (e.g. Germany and Denmark). Within the three generic categories of PGBS there are different approaches, and many donors are using a combination of Sector and full or PAF GBS. Some just use full PGBS – e.g. DFID – while the majority of donors involved in PGBS are solely involved in sector budget support. In addition, some donors have recently combined Sector and full/PAF GBS into a single instrument. This means that for some, PGBS has been an additional way of providing aid, over and above projects, while for others PGBS has represented a clear paradigm shift, in which they have moved away from projects.

A3.19 Nevertheless, a number of donors have remained outside the PGBS framework. Donors such as USAID, now the largest bilateral donor, and JICA have been unable to move towards PGBS because of their own internal procedures, but they have remained very much part of the sector dialogue processes.

A3.20 In aggregate there has been a clear relative shift towards budget support by donors, although projects have continued to grow. Donors saw both SWAps and the PAF as key initiatives which facilitated their move to PGBS. The existence of clear policies and strategies combined with the fiduciary assurances provided by the MTEF and the PAF made it easier for donors to justify the move towards budget support. Maturing sector processes, alongside the

⁷ See Chapter B1, Box B1.2 for a fuller explanation why notionally earmarked "sector budget support" is treated as PGBS.

⁸ Although both provide some institutional and capacity-building support in the form of projects.

relatively open consultative budget process, helped the move towards GBS – and for some it was a transition from sector to full GBS (e.g. Ireland, Norway), while others were able to move directly into full GBS (e.g. Germany).

A3.21 However, over the last three years, governance issues have become more prominent in the relationship between development partners and the GOU. The question of political transition, and the run-up to the 2006 presidential elections, is marking a tense phase in donor–GOU relations. Ireland moved its budget support from full GBS to PAF GBS in 2003/04 (Mokoro Ltd 2003). Later, in 2005, three bilateral donors – UK, Ireland, and Norway – reduced budget support disbursements over what they saw as a lack of progress in political transition. However, these cuts in disbursements have yet to translate into a shift away from budget support as a modality.

A Clear Domestic Preference for GBS

A3.22 The process during which the Partnership Principles were developed culminated in a clear expression of the GOU's preference for budget support, and unearmarked GBS in particular. This strong preference is reiterated in PEAP3, which also gives a cogent explanation of why budget support is preferred (Box A3.4 below). However, there is now a more nuanced view within the Ministry of Finance, which still sees a role for projects, especially in the areas of institutional capacity building and policy reform.

Box A3.4: Why GOU Prefers Budget Support

...providing aid in the form of budget support enhances ownership of the budget and enables a more internally coherent budget to be formulated, in which scarce budgetary resources are allocated to the government's own strategic spending priorities and the relative costs and benefits of competing expenditure demands. Projects lead to a fragmentation of the budget, with decisions about donor project expenditure divorced from national budget process and taken without proper consideration of the relative merits of all competing expenditure demands. Donor-funded projects often involve far higher unit costs than projects funded from the GOU budget and consist of much lower priority expenditures, because they are heavily influenced by donor priorities.

Source: PEAP3 (2004) p. 211.

A3.23 Those sectors that were in the PAF appreciated budget support, because it meant that they had preferential budgetary treatment in terms of allocation and disbursement. Those sectors which were early to develop SWAp, in particular health and education, benefited doubly from preferential budgetary treatment in the PAF, and from notionally earmarked sector budget support. This meant that rapidly increasing flexible resources were made available to sectors reliably, and understandably this was very popular among sector agencies, even if much of the resources were being channelled to local governments.

A3.24 The prospect of increased on-budget resources also provided an incentive for other sectors to develop strategies and SWAp type processes, and thereby attract sector budget support. However, as we shall describe later, the commitment of additionality of sector and PAF budget support was withdrawn in 2001, which meant those sectors which developed SWAp later on, such as the Agriculture and Justice, Law and Order sectors, benefited less in terms of resources, and this resulted in some disillusion among stakeholders in those sectors.

PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

B1. The Relevance of Partnership GBS

How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?

Introduction

B1.1 This chapter is concerned with Levels 0 and 1 of the Enhanced Evaluation Framework (EEF). It describes the objectives and nature of the various PGBS inputs and the relevance of those inputs to the PGBS objectives, and the broader Ugandan context described in Part A. In the context also of the different types of GBS in Uganda, it looks at the implicit entry requirements for PGBS, and whether these have changed over time.

B1.2 There are no causal hypotheses to test in this chapter and, as such, there are no attribution challenges. However, the term "design" of PGBS needs to be treated with care: there are many different PGBS instruments, with significant variations in their design; different participants interpret some aspects of the design differently; and the designs have evolved significantly over time and been adjusted by GOU and different IPs to fit changing circumstances or perceptions.

Relevant Facts: The Design of PGBS⁹

Objectives and Intent of PGBS

B1.3 Early PAF and sector budget support was intended to provide additional resources to specific PAF and sector budget lines, and earmarked accordingly. But there has been a trend away from funding specific budget lines towards funding whole sectors and sub-sectors, and objectives of these narrower budget support instruments have become more closely aligned with overall sector strategies.

B1.4 The inaugural PRSC in 2001 was the first full PGBS instrument with an explicit objective to support Uganda in the implementation of the Poverty Eradication Action Plan as a whole. Although the stated objectives of the PRSC were not directly drawn from PEAP2, they were explicitly supporting the PEAP pillars (see Box B1.1). Subsequent full PGBS instruments have also been grounded in PEAP objectives (for details, see Table 3C.1 in Annex 3C). As well as supporting Uganda's development objectives, there are intermediate objectives concerning the quality and efficiency of aid. Thus, in addition to strengthening government processes and systems, other explicit objectives emerged for the PRSC as it became clear that other donors wished to take part in the PRSC process: to replace concurrent donor systems with one, to improve predictability of resource flows, and to reduce transaction costs.

⁹ A more detailed description of the design of PGBS is provided in Annex 3C.

Box B1.1: PRSC Objectives

Early PRSC objectives were aligned with the PEAP pillars:

- *supporting the efficient and effective use of public expenditure (under PEAP pillar 1);*
- *improved governance through cross-cutting public sector reforms (under PEAP pillar 2);*
- *improved delivery of basic services (under PEAP pillar 3).*

In 2002, for PRSC2, an additional objective was added, to ensure all pillars of the PEAP were covered:

- *promotion of an enabling environment for rural development (under PEAP pillar 4).*

Level and Nature of PGBS Funding

B1.5 There was little increase in programme aid at the time of the introduction of the PAF in 1998, as this represented a switch from MDF funding, rather than an absolute increase. However, after the introduction of full PGBS the amount of programme aid (excluding HIPC) being provided to Uganda increased rapidly from the base of USD 150m in 1999/00 to USD 350m in 2001/02, and further to USD 400m in 2003/04 (see Annex 3C, Figure 3C.1). Of this, PGBS has increased from 26% of programme aid in 1999/00 to 99% in 2004/05. If one includes HIPC, in relative terms programme aid as a proportion of total on-budget aid receipts has increased from 36% in 1999/2000 to 56% in 2001/02, and since then it has stayed above 50%. Out of all the seven evaluation countries Uganda has enjoyed by far and away the greatest share of aid as PGBS. Between 2001 and 2004 PGBS averaged 37% of total ODA in Uganda compared to 16% in Burkina Faso, 15% in Rwanda and 12% in Mozambique, the three nearest countries in the evaluation.

B1.6 By 2003/04 there were 13 different donors providing PGBS, and these donors were operating 34 different budget support programmes, of which 25 were sector budget support programmes. (Box B1.2 explains why we have included notionally earmarked sector budget support in the evaluation.¹⁰) In value terms, PAF and full PGBS instruments dominate: they accounted for 68% of PGBS funding between 2000/01 and 2003/04, of which 56% was full GBS and 12% PAF GBS. Despite the large number of operations, sector budget support accounted for only 32% of budget support disbursements.

Policy Dialogue and Conditionality

B1.7 Donor involvement in the dialogue around the budget process started before the movement towards SWAPs and PGBS (see Annex 3C, Table 3C.2, for GOU commitments and donor conditions for the PAF). In the context of budget support, this budget dialogue has become increasingly important for IPs involved in all types of PGBS. There are two main levels at which dialogue takes place: at the national level through the consultative budget process and at the sector level through a particularly well developed series of sector working groups (see Box B1.3). The donor economists group coordinates the overall response of development partners during the budget process, while individual sector groups are involved at the sector level.

¹⁰ Further details on earmarking and disbursement of PGBS funding can be found in Annex 3C.

Box B1.2: Is Notionally Earmarked Sector Budget Support GBS?

For this evaluation we have considered notionally earmarked sector budget support as a form of GBS. The difference between real and notional earmarking is as follows:

- With *real earmarking*, spending on pre-agreed budget lines precedes the disbursement of sector budget support.
- *Notional earmarking* involves justifying the allocation of budget support against pre-agreed budget lines, but disbursement is against a pre-agreed schedule, and not a reimbursement of actual expenditures.

In Uganda, sector budget support is justified against budget lines in the Poverty Action Fund and in some cases sector MTEFs (e.g. education). However, tranches are released on the basis of successful completion of undertakings in sector reviews, and are not a reimbursement of actual expenditures. Thus in Uganda sector budget support is only notionally earmarked, and we have therefore considered it as GBS.

What makes notional earmarking exceptional in Uganda between 1998 and 2001 is that GOU made an explicit commitment to additionality – that sector budget support would result in, at least, a matching equivalent increase in budgeted expenditures for that sector. HIPC and PAF budget support was similarly guaranteed to result in a matching increase in overall PAF budget allocations. This does not mean that donor earmarking over-rode GOU preferences. The GOU regularly increased its PAF expenditures by more than the amount of notionally earmarked funding; the additionality guarantee was an indication that GOU priorities for the additional resources were in line with those of the donors.

However, this guarantee of additionality was withdrawn in 2001, as the GOU has decided to limit increases in public expenditure due to concerns over the deficit. However, in order to demonstrate continued prioritisation of PAF expenditures in the budget the GOU undertook, at least, to maintain PAF expenditure allocations as a share of the budget. Since then, sector budget support has not had a guaranteed influence on sector budget allocations. The change ensured that the GOU was in control of on-budget public expenditure decisions; this position was later reinforced by the decision to incorporate project aid within MTEF ceilings (see ¶B2.5). Nevertheless (like fully unearmarked GBS) sector budget support is provided in a context of detailed dialogue over the composition of public expenditures, and in practice PAF expenditures have continued to rise by more than the increase in notionally earmarked funds.

Box B1.3: Sector Working Groups

Sector Working Groups (SWGs) are central to both the sector review processes and the planning, MTEF and budgeting process. They are made up of representatives of spending agencies within the sectors and other stakeholders from civil society and IPs. SWGs are required to prepare contributions for the budget framework paper which set out the medium-term budget strategy for the sector. These contributions set out measurable performance targets for the sector, and resource allocations between agencies in the sector. These groups are required for all sectors, whether or not they have fully fledged sector review processes.

B1.8 Donor–government dialogue around full PGBS takes place at the PRSC Steering Committee (SC), which was formed in 2000, and chaired by the MFPED until 2004, after which the chair was moved to Office of the Prime Minister (OPM). On the donor side, the World Bank and those donors providing or considering providing full GBS took part. This often meant large donor contingents which outnumbered government representatives in meetings, although the size of missions has reduced in recent years. Until 2004 the scope of the dialogue was guided by a PRSC policy matrix, after which the implementation matrix from the third PEAP has been used. (See Annex 3C, Table 3C.3, for an outline of the scope of PRSC/PEAP matrices over time.) There are also thematic donor groups on public finance management, public sector reform, decentralisation and governance. Again these groups are not limited to the IPs supporting PGBS, although they tend to dominate. These groups meet more often than the PRSC Steering Committee, and are made up of representatives of donor agencies and

sometimes government officials (see Annex 3C for further details of PRSC dialogue). A governance matrix was developed to facilitate governance discussions as the PRSC matrix did not include such issues beyond corruption; however, this is now being replaced in the dialogue by the “good governance” pillar in the PEAP3 matrix.

B1.9 PGBS conditionality centres on monitoring the implementation of actions from the PEAP/PRSC matrix, and focuses on the annual agreement of a smaller set of prior actions (see Annex 3C Table 3C.3 for an outline of PRSC prior actions). These prior actions have to be met before PRSC funds are released,¹¹ and most full GBS instruments are tied to this. PRSC conditionality is linked to sectors by including “one-liners” which refer to satisfactory conclusions of review processes in key sectors which themselves have their own systems of dialogue. Disbursement of sector PGBS funding is usually tied to successful implementation of the concerned sector reviews, but sometimes to the PRSC as a whole.

Harmonisation and Alignment Inputs of PGBS

B1.10 Full PGBS instruments have relied on government systems for reporting and monitoring. Although the government had made strides in improving monitoring and evaluation, and used information more in decision-making, those systems were weak and poorly coordinated in 2001. Where those systems have been lacking, support has been provided to the GOU by donors to develop them (see Annex 3C for details). The introduction of full PGBS did not seek to create new mechanisms for monitoring sector performance, choosing to rely on existing sectoral arrangements. The only additional institutional arrangements that were added as a result of the introduction of full PGBS was that of the PRSC SC, and the GOU was required to report on progress against undertakings in the PRSC matrix.

B1.11 Harmonisation has been more difficult and has been somewhat less successful. Most donors have signed up to the Partnership Principles, and take part in the PRSC discussions, agreeing to prior actions, and using government reporting systems. Donors are working well together in sector and thematic groups, and are able, more often than not, to agree common positions on policy issues. In addition, some full GBS donors have delegated other donors to represent them in dialogue, or have withdrawn from some sector dialogue completely. However, there is a distinct lack of harmonisation with the budget cycle in terms of planning horizons, timing of commitments, and disbursement procedures. This reflects donors’ differing administrative procedures, but also the fact that they have different “red lines”, and reserve the right to make independent decisions about disbursement, even if they can agree common policy positions.

PGBS Technical Assistance and Capacity Building

B1.12 TA and CB are the least well developed elements of PGBS design, when compared to the inputs envisaged in the EEF. Little new TA and CB is explicitly mentioned in unearmarked GBS programme documentation itself. However, both TA and CB have always been very much part of the plans of development partners who provide PGBS. Many donors therefore provide parallel TA and CB projects or funds.¹² For example, the PRSC programme document explicitly mentions the fact that “IDA expects to continue with self-standing capacity-building projects”,¹³ and continues to provide technical support through existing mechanisms to PER processes. DFID has a strategic fund whose purpose is to “provide one-year financial or technical support

¹¹ See Annex 3E for the current operational principles on PRSC prior actions.

¹² Again, Annex 3C provides further details of TA and capacity-building initiatives, while Annex 4B reviews PFM capacity.

¹³ Page 25, Presidents Report on PRSC1, World Bank 2001 (World Bank 2001d).

to increase the effectiveness of budget support, by targeting the strategic dialogue associated with it”,¹⁴ and other donors often provide flexible short-term TA support to policy processes.

B1.13 To date Uganda has developed no comprehensive, overarching capacity-building strategy or plan to which capacity building can be linked. However, this is an intended activity set out in PEAP3. At a cross-sector level there now does exist a capacity-building policy for local government, and efforts have been made to professionalise the accounting cadre within government. Within the various sectoral strategies there are provisions for capacity building. Capacity building is therefore provided in the context of ongoing sectoral and cross-cutting programmes and coordination mechanisms. To the extent that sectoral strategies are aligned with the PEAP it can be said that capacity building is also aligned.

Assessment against Evaluation Criteria

Relevance to the Context

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.		
Level: **	Trend: =	Confidence: ***

B1.14 Overall the many different designs have been moderately responsive to the specific conditions of Uganda. The emergence of PGBS in Uganda was not the importation of a recipe from elsewhere, but a response to the specific combination of circumstances in Uganda that was described in Part A – notably, a government that was congenial to the IPs, had a genuine concern and strategy for poverty reduction, had achieved macroeconomic stability and discipline, was strengthening PFM, and provided an opportunity to use both HIPC resources and what had previously been debt relief to support the expansion of basic government services. However, the present design was not fully pre-planned: much of it has been reactive to particular issues as they have arisen. PGBS design has evolved alongside government reforms and the increased sophistication of the PEAP, budget and sector processes. While the design by and large reflects a technical consensus about the requirements for implementation over much of the PEAP at the sectoral level, it can be criticised for not adequately addressing broader economic issues beyond macroeconomic stability or cross-cutting delivery issues. Difficulties experienced in the governance areas suggest that some IPs’ initial assessments of the political context may have been superficial or over-optimistic.

Macroeconomic management

B1.15 The fact that macroeconomic management is not a major part of the PGBS dialogue (it is largely conducted with the IMF) reflects the comfort donors have in the GOU’s macroeconomic management. However, sound macroeconomic management is inherent in the PGBS design, as most donors explicitly (as part of their agreement) or indirectly (through requiring a successful PRSC process) require the GOU to remain on track with the IMF.

Public finance management¹⁵

B1.16 Public finance management has always been at the centre of PGBS design. Innovations by the GOU in terms of the PAF and SWAps, combined with the explicit commitment by the GOU to ensure the additionality of PGBS and to disburse PAF programme budgets in full, gave

¹⁴ Strategic fund PCR.

¹⁵ See the detailed review of PFM standards in Annex 4B.

donors the confidence to begin providing PGBS. All PRSCs include a stipulation about IPs agreeing the MTEF allocations, and budget execution being in line with the MTEF.

B1.17 Early sector and PAF budget support focused on this front end of the budget cycle – strategy, allocation and disbursement of budget funds, with little attention to other aspects of public finance management. However, the focus has shifted towards a more holistic approach to financial management, incorporating reforms to the accounting, procurement and audit function as well as allocation and disbursement. This is appropriate, but there has been less attention to the deepening of the budgetary process: the PRSC has concentrated on central rather than local government PFM, despite the importance of LGs in delivering the services supported by PGBS. The first LG-specific prior action related to the tabling of a LG procurement bill in 2004.

Sector policy, decentralisation and service delivery

B1.18 At a sector level, the processes have been well conceived in the support of the development and implementation of sector strategies. Sector and full GBS have also responded well to the weaknesses in aid instruments at the sector level, fostering improved coherence. The PGBS design, combined with the SWAp and the PAF, allowed a significant and fast increase in the funds channelled through the LGs’ budgets to service delivery, supported by TA within key areas. The PGBS process was not clearly aligned with overall decentralisation objectives, as outlined in the 1995 Constitution and the Local Government Act 1997. This was particularly so in terms of local accountability, ownership, citizen involvement, participation and voice, and instruments better to align support with these objectives are still being explored (see Annex 6 for more discussion of this issue).

Politics and governance

B1.19 Early PAF and sector budget support operations did not directly deal with governance but they subscribed to transparent reporting and review processes and funding of monitoring activities, which were built into sector undertakings and PAF guidelines. From the outset PRSC prior actions have represented a clear desire to tackle corruption (the leadership code featured in the first PRSC). Other issues relating to political governance were not high on the agenda in the 1990s, as many donors felt that the democratic process was progressing as well as could be expected. However, bilateral donors in particular have become more concerned about governance issues, as the initiative to form a governance group and matrix demonstrates, but the way in which governance issues have been handled have not always taken into account the political realities underlying the emerging governance problems (see the discussion of governance issues in Chapter C5).

Dialogue, Conditionality and Ownership

The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.		
Level: **	Trend: =	Confidence: ***

B1.20 The dialogue and conditionality, at a sector level especially, have evolved in a way that reflects better understanding of what is technically feasible and what is not. Much of the PRSC dialogue focuses on technical reforms within government which will strengthen the ability of government to deliver, and which government is willing and able to implement effectively. Agreements have become more realistic and less ambitious. Even so, it is possible to identify gaps where dialogue and conditionality might have helped foster reforms, and there could have been more progress made. For example, although they have not been ignored, the

implementation of cross-sector decentralisation reforms, as well as public sector reform, have been given little priority in the dialogue, despite the scope for progress.

B1.21 Many government stakeholders talked positively about the role of dialogue and conditionality, which *inter alia* helped exert managerial pressure on different government agencies to maintain the momentum of reforms, and protected those reforms from opponents. However, it is also clear that the dialogue and conditionality have not always “picked winners” by identifying the areas where this pressure is likely to accelerate progress. This is in part due to a shallow understanding of the political economy of reform processes. For example, prior actions about controlling public administration expenditure outturns or reducing corruption may reflect a genuine desire by the MFPED (and donors) to improve the efficiency of public expenditure. However, it is unrealistic to expect that MFPED will be able to exert significant control over expenditures from Parliament and State House with or without conditionality, or for technical reforms around corruption to succeed in the absence of a clear political drive to stamp it out. Related to this is the emerging dialogue and conditionality around governance. While donor concerns over political governance may be legitimate, it is clear that they are unable to influence the political process through dialogue and conditionality. This is widely acknowledged, even by those writing governance conditions into their PGBS agreements. However, the governance requirements in agreements read more like traditional conditions, as opposed to red lines that will make it difficult for donors to continue to provide aid in general (and not PGBS in particular).

B1.22 Although the number of prior actions has remained roughly constant at about 10, the overall PRSC matrix has had an increased number of actions within it, mushrooming from 46 in PRSC1 to 70 by PRSC3. The PEAP matrix, which is being used for the PRSC5 dialogue, had 200 discrete actions, although this includes the details of sector actions (see Annex 3, Table 3C.1). While the monitoring of prior actions has been strengthened, this implies that monitoring of overall progress is becoming diluted. Some interviewees within government and civil society felt that donors were continuing to use the dialogue as a mechanism to buy reforms, and individuals in donor agencies were often keen to push their own personal agendas within the dialogue.¹⁶ However, they also pointed to a major difference, which was the ability of government to say no, while agreed actions do increasingly appear to be based on existing policies and plans.

B1.23 Recent initiatives to use the PEAP matrix as the basis of dialogue and conditionality are consistent with higher degrees of ownership, but only up to a point. It is often assumed that all the actions in the PEAP are owned by the GOU, especially at the political level, although the PEAP appears to have become an increasingly technical and less political framework. The comprehensive nature of the PEAP, and of the PEAP3 matrix, means that the dialogue may become less focused, and water down the quality of reforms across government (although the more comprehensive PEAP matrix is a positive development – see Chapter B9).

B1.24 Finally, high turnover of IP staff can undermine the quality of the dialogue. As a result the depth of understanding of those engaging in the dialogue is often shallow. This undermines the value added of the dialogue, and the incentives for GOU counterparts to engage.

¹⁶ This may take the form of getting an action into the PRSC matrix or sector undertakings.

Poverty Orientation

The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.

Level: ***	Trend: +	Confidence: ***
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B1.25 PGBS is well aligned with the poverty reduction strategy defined in successive editions of the PEAP, and therefore echoes its areas of focus with respect to the different dimensions of poverty. The pillars of the PEAPs (Box A2.1 above) clearly reflect all the dimensions of poverty highlighted in the EEF (income poverty, non-income poverty, and empowerment/social inclusion). It is fair to say that in practice, the initial emphasis of PEAP implementation, supported by PGBS funds, was on non-income dimensions (basic social services). Similarly, the PGBS dialogue has tended to focus on the public sector and in particular on social service delivery. Early SWAPs¹⁷ which benefited from budget support were health and education, and the PAF fostered the largest budget increases in those sectors as well as in water and sanitation. The strategies in the PEAP and at sector levels, and as a consequence PGBS, are well oriented to deliver against many of the social sector-related MDGs.

B1.26 Although income poverty reduction has always been an objective of the PEAP, the dialogue around agriculture took off later than for the social sectors, and only now is being accompanied by significant increases in public resources to the sector. In addition there is concern that economic and macroeconomic policy is not responding to the needs of the private sector as a whole, and not supporting the growth agenda adequately. The analysis of poverty (through participatory assessments etc., see Chapter B8) embraced all the dimensions, and was important in highlighting, for example, the importance of security to the welfare of the poor. Hence the PEAPs have always had pillars relevant to security and governance concerns. Some "empowerment" dimensions (such as gender) are more easily incorporated in the agenda than others, and, as noted, broader governance issues have been an increasingly sensitive issue. Decentralisation, which has been supported by PGBS funding flows via the PAF, but less so in terms of dialogue and conditionality, can be seen as an "empowering" reform (although its pro-poor effects should not be taken entirely for granted). There is increasing attention to income-generation dimensions of the poverty reduction strategy, with IP-GOU collaboration over the development of the Plan for Modernisation of Agriculture (PMA) as an important element (see Chapter C2 below for more on this issue).

B1.27 Overall, we conclude that all the dimensions of poverty reduction are well represented in the design of PGBS. Whether they are reflected in a suitably balanced way in implementation is an issue that recurs in later chapters.

Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and government) show differences in expectations and approaches related to PGBS or some of its components.

Level: **	Trend: =	Confidence: **
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B1.28 The area of most consistency in the design of PGBS is the framework for conditionality and dialogue. The interface between sector wide approaches and the overarching PRSC

¹⁷ Although the roads sector was one of the first to develop a SWAP, donor projects have remained the dominant form of funding, although rural road maintenance is part of the PAF.

process has become increasingly coherent, with sector dialogue happening within sectors and PRSC dialogue largely covering cross-sector issues. Over time increased coherence in the dialogue and use of conditions has emerged. All full and PAF GBS is tied to the PRSC dialogue and conditions in some way, while sector PGBS donors engage in the sector dialogue and associated conditions. Where there is room for technical consensus, especially at the sectoral level, the partnership between line ministries and development partners has matured, and the central government agencies and ministries now understand their different perspectives and the boundaries within which they work.

B1.29 However, even in the dialogue there is a degree of incoherence across the donor community. There is often a tighter relationship between sector donors and their technical ministries in the dialogue than there is between the different donor groups, which often results in resistance to cross-sector reforms. A case in point is that different sector donor groups lobby on behalf of their sectors for increased allocations in the budget process. Sector donor groups are often resistant or unhelpful to initiatives that are aimed at improving coherence across sectors, whether that is agricultural education or giving local governments discretion to reallocate sector grants under the Fiscal Decentralisation Strategy.

B1.30 In addition, the quality of the dialogue is adversely affected by the high turnover of donor staff and a lack of specialisation. Donor staff rarely receive training on GOU systems, and the level of understanding of new donor staff of the systems they are supporting can only be superficial. This limits the ability of donors to add value to the dialogue, and the incentive for GOU officials to engage in meaningful dialogue with those donor partners.

B1.31 There is even less coherence in some other aspects of PGBS design. One major problem in Uganda is the sheer number of different budget support instruments. The number has mushroomed from nine in 1998/99 to 29 in 2003/04, with the vast majority being sector budget support. In 2003/04 the five largest PGBS instruments amounted to 67% of PGBS funding, while the 20 smallest accounted for only 17% of PGBS funding. This would not necessarily matter if they were harmonised with each other. However, as described earlier in this chapter, the PGBS instruments vary significantly in design (e.g. in their planning horizons, and their different conditions and disbursement procedures). There are also differences in the way that different donors' assessments of performance affect their disbursement decisions, even in the context of joint mechanisms for dialogue and performance review. (However, although this creates an element of uncertainty for the GOU, the fact that donors do not all react in identical fashion may serve to dampen aggregate volatility.)

Response to Previous Weaknesses in Aid Management

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.

Level: ***

Trend: =

Confidence: ***

B1.32 Despite their many inconsistencies, the various forms of PGBS design have addressed a lot of the early incoherence of aid, and aid management, building on the framework presented by the MTEF, PAF and SWAps. Donor projects were often fragmented and poorly aligned with government policies and processes, and used a multiplicity of systems. The PGBS design addressed this by allowing donors to provide support either through sector or through full GBS government policies and systems more directly. There are now more coherent frameworks for delivering large-scale financial support, TA and CB both within and across sectors.

Principal Causality Chains

B1.33 This chapter does not review a causality chain as such, but has examined the consistency between the "entry conditions" of the EEF's Level 0 and the inputs at Level 1. In most respects the "design" of PGBS in Uganda has been a relevant response to previous experiences and to the changing context for aid. The design has continued to evolve in the light of experience. Later chapters examine how successful PGBS has been in achieving the objectives set for it.

B1.34 An important factor behind the degree of PGBS ownership and orientation towards poverty was the leadership in the Ministry of Finance, supported by the President. MFPED-directed central and sector budget processes laid the foundation for a PGBS design which was able to respond to Uganda's specific situation. Reflecting its origins, the design was particularly strong on the integration of PGBS with the planning and budgeting systems, and in support to service delivery, linking in with various SWAp processes. It was less firmly based on analysis of the political context. TA and CB have been the least well integrated of the PGBS "inputs".

B1.35 In addition, it is important to mention here the degree to which the inputs envisaged in the EEF are present in Uganda, as this is an important starting point for tracing the hypothesised effects of PGBS through the levels of the evaluation framework. Uganda has enjoyed a substantial flow of PGBS funds (point 1.1 on the causality map). Policy-focused dialogue (1.2) and conditionality (1.3) are also present. Significantly, many of the structures for dialogue which PGBS utilises (e.g. the consultative budget process and sector working groups) pre-dated the shift to PGBS. This makes the attribution of effects to PGBS more difficult. TA and CB are the least well defined inputs in the Ugandan PGBS package, rarely forming an explicit part of a PGBS instrument, and usually linked to PGBS through dialogue and conditionality. PGBS is well aligned with government objectives, and there has been moderate progress in harmonising PGBS instruments (1.5).

Counterfactual

B1.36 Continuation of old-style structural adjustment support was not an available option: there was not the same case for balance of payments support and IPs had lost faith in the didactic approach to conditionality. Similarly, the HIPC initiative had removed the need for MDF-type support: as we have seen, HIPC resources and the legacy of the Multilateral Debt Fund inspired the PAF, which became an opportunity for a new approach to programme aid. Concentration on the project modality, if carried out in the context of SWAps, could have addressed the incoherence and fragmentation of projects, and some progress could have been made in aligning projects with government objectives and harmonising support. However, project support would not have been so well aligned as it does not use, and consequently strengthen, GOU systems in the same way. More plausibly, IPs could have confined themselves to genuinely earmarked budget support, but this would have been a much more rigid approach, foreclosing the benefits of increased GOU discretion which we investigate in later chapters. A strategy using real or notional earmarking alone would have limited the opportunity for addressing cross-sector reforms in the dialogue. In practice, the design adopted was not a substitute for sector approaches so much as a way of integrating them into more coherent and comprehensive support for the national poverty strategy.

B2. The Effects of PGBS on Harmonisation and Alignment

Has PGBS contributed to greater harmonisation and alignment of the aid process?

Introduction

B2.1 The evaluation question this chapter addresses is whether PGBS has contributed to greater harmonisation and alignment (H&A) of the aid process. The concern is whether the H&A inputs of PGBS (point 1.5 on the Causality Map) do result in the IPs moving towards alignment and harmonisation around national goals and targets (the Level 2 immediate effects at point 2.6). It is a matter for later chapters to examine whether such immediate effects do in turn generate the subsequent benefits that are commonly ascribed to H&A.

B2.2 The evaluation criteria in this chapter are structured to distinguish between three distinct components of H&A: (a) alignment with government objectives, policies and strategies; (b) alignment with government systems, and (c) harmonisation among donors.

Relevant Facts

B2.3 The aid management "infrastructure" in Uganda is elaborate. It has been described in general terms in Part A, and in more detail in the review of PGBS design in Chapter B1, supported by Annex 3C. Two notable features are (a) that the GOU (and MFPED in particular) played an active role in its design, and it centres on what are clearly GOU components and systems, such as the PEAP and the planning and budget process centred on the MTEF; and (b) that few of the elements are specific to PGBS. The PRSC cycle could be viewed as specific to PGBS, but it has itself assumed a wider significance, as discussed below.

Assessment against Evaluation Criteria

Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through:

(a) aligning aid objectives and conditions with government objectives and targets

General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.4 In general, alignment of IP objectives with those of the government is moderate; it is based on the clear articulation by the GOU of objectives which match those of IPs. PGBS has had a strong effect in aligning IP assistance with GOU objectives and targets in an increasingly operational way. The PEAP, which functions as the PRSP for HIPC and associated purposes, provides the focus for alignment, and this is formalised in the partnership principles. Initially, PRSC conditions were not drawn directly from the PEAP (largely because the PEAP lacked the necessary matrix of intermediate measures and targets), but a convergence between the PEAP and PRSC matrices is now taking place. There is substantial coherence between the PEAP and GOU sector strategies, so that sector-focused PGBS instruments are also aligned with GOU objectives and targets, and sector conditions are nested into the overall PRSC matrix (see

Annex 3C for more details). PGBS alignment has reinforced the credibility of the partnership principles and the pressure for non-PGBS aid also to be explicitly aligned with GOU strategies.

Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B2.5 As noted, MFPED has played a strong role in aid coordination, and the management arrangements for PGBS are a manifestation of this – not only in terms of PGBS itself being directed towards clearly articulated, costed and prioritised GOU priorities, but also in terms of sector and local government budgets and strategies being increasingly integrated. The allocation of PGBS funds in this way increases the credibility of the budget process (see Chapter B4) and thereby increases the GOU's ability to coordinate all forms of aid. The inclusion of all donor projects in MTEF ceilings, as from 2004/05, is likely to strengthen GOU leadership still further.

B2.6 Similarly, PGBS and SWAps alike have increased the tendency for the GOU and donors to conduct analysis jointly, and for donors to support and comment on analytic work commissioned by the GOU. There is also a continuing trend towards donors sharing analytic work related to PFM (with now a broad and collaborative Country Integrated Fiduciary Assessment, see World Bank 2004c).

B2.7 PGBS has made less difference to the management of TA. The GOU (and MFPED in particular) has demonstrated a capacity to make effective use of long-term TA by integrating TA personnel into its structure and work programmes. However, TA inputs generally have not been tightly linked to the other PGBS inputs, and continue to operate mainly through free-standing TA projects or through ad hoc support managed by donors.

Alignment with Government Systems

Government planning and budget cycles

The extent to which PGBS has contributed to increased IP alignment with government systems at national and sectoral levels through:			
(a) aligning fund commitment and disbursement with government planning and budget cycles			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B2.8 Uganda has an unusually well-specified planning and budgeting cycle. There is a clear annual calendar for budget preparation which starts from the preparation of framework papers and proceeds to prioritise budget allocations within mutually consistent expenditure ceilings; the cycle is replicated for sector ministries and local governments. Donors are directly involved in the process, through sector working groups and the annual Public Expenditure Review. Annual budgets are prepared in the context of a rolling Medium Term Expenditure Framework; during PEAP3 preparation, a Long Term Economic Framework (LTEF) has also been developed (LTEF 2004). PGBS management arrangements make the IPs deeply aware of, and involved in, the planning and budget calendars that Uganda follows. The annual PRSC calendar is designed to synchronise with the budget calendar. Nevertheless, IP alignment with these cycles has been

deficient: first, timing of actual disbursements is somewhat unpredictable (see discussions of predictability in Chapter B3 and Annex 3C); second, IPs generally have not provided medium-term or long-term commitments of funding in line with the planning horizons that they have applauded the GOU for adopting.

Government implementation systems

(b) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.9 PGBS is by definition disbursed via GOU cash management, procurement and implementation systems and made subject to GOU audit. The large volume and increased share of PGBS has meant a commensurate increase in reliance on these systems. Especially to begin with, however, PGBS was accompanied by special reporting and validation requirements. An early request for auditing of the PAF was misconceived (since the PAF is only a virtual fund within the GOU budget), but an elaborate system of reporting and review was linked to the PAF, and in particular to its conditional grants to districts. However, these have developed into a more integrated reporting system, linked to the fiscal decentralisation strategy (see Annex 6); increasingly, instead of being primarily fiduciary assurances to donors, the reports and reviews surrounding the PAF and SWAps have become part of the GOU management system. There has been increasing attention to checking the arrival and use of funds, not just their disbursement, through tracking studies and service delivery surveys (see Chapter B7 for more on this). However, donor-funded TA and CB programmes linked to PGBS often use parallel reporting and accountability mechanisms, and may be off-budget.

Harmonisation among Donors and Modalities

The extent to which PGBS has contributed to improved overall coordination and complementarities of IPs' programmes.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.10 The effect of PGBS on overall coordination and complementarity of IPs' programmes has been strongly positive, largely because of the way PGBS itself has fitted into increasingly coherent GOU planning and budget systems. The fact that SWAp processes do not discriminate between PGBS and other donors has helped to ensure the coordination and complementarity of their aid. For example, those donors which cannot provide budget support instead provide TA and CB support in the areas of health and decentralisation. In practice, convergence on government strategies and systems (as opposed to separate harmonisation among themselves) has been the principal route to harmonisation among donors. For example, there has been harmonisation around the dialogue and conditions associated with aid in the context of SWAps and full general budget support. Communications to sectors have been increasingly through the rotating chair of sector donor groups, and not on a bilateral basis. Donors have been increasingly selective in their areas of participation in the dialogue with the GOU, with some donors disengaging from a number of sectors, either completely or by delegating other donors to represent them. This, combined with the consolidation of aid, has helped to reduce transaction costs (see Chapter B3).

B2.11 However, there has been less harmonisation of PGBS disbursement procedures. This is a reflection of donors' differing administrative procedures, but also a reflection of the fact that they have different "red lines", and feel that they need to make independent decisions when it comes to disbursement, even if they can agree common policy positions. There was an effort to develop an agreed set of operational principles for full GBS in 2003, but this stalled, inter alia, due to a lack of interest from the MFPED. More recently a subset of donors¹⁸ has been attempting to develop the Uganda Joint Assistance Strategy (UJAS Partners 2005) in support of the third iteration of the PEAP.

B2.12 PGBS has not had a strong influence on the provision of TA and CB by IPs, which remains poorly coordinated. However, TA and CB are often linked to PGBS through the dialogue, which, in certain circumstances, has improved coherence.

The extent to which there have been specific complementarities between PGBS and other forms of aid.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B2.13 Numerous complementarities between PGBS and other modalities have already been cited. These vary across sectors, and tend to be stronger in the SWAp sectors. SWAp processes have helped ensure complementarity between aid instruments as they provide a common framework for dialogue for PGBS and non-PGBS donors. TA has also been increasingly oriented towards assisting the implementation of sectoral strategies, and not the implementation of stand-alone projects. Nevertheless, some donor projects are conceived outside the dialogue and coordination processes. The gravitational pull of such projects will be reduced if MFPED succeeds in its intention to incorporate them in budget ceilings (so that sectors seeking off-budget aid will forgo equivalent budget resources).¹⁹ A potential dissonance relates to global funds, where the GOU has similarly argued that such resources should be included within aggregate and sector aid and expenditure ceilings.

Principal Causality Chains

B2.14 PGBS effects on harmonisation and alignment as far as Level 2 of the EEF have been strong. Effects have not been limited to the inherent H&A in PGBS itself, and GOU coordination efforts have been reinforced by peer pressure among donors, though not all donors have the same propensity to conform.

Counterfactual

B2.15 Harmonisation and alignment effects of PGBS were facilitated by the pre-existing strengths of GOU leadership and by the previous and parallel development of SWAp mechanisms. However, the same degree of harmonisation among donors and alignment in support of government strategies and, more particularly, government systems, would not have occurred in the absence of the PGBS modality.

¹⁸ As of June 2005 these were the World Bank, AfDB, UK (DFID), German, the Netherlands, Norway, Sweden.

¹⁹ With effect from 2004/05, sector ceilings do now include donor projects, but it remains to be seen how effectively the discipline is applied.

B3. The Effects of PGBS on Public Expenditures

How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?

Introduction

B3.1 This chapter relates to the transition from the immediate effects of PGBS (Level 2) to the outputs of PGBS (Level 3) in the evaluation framework. It focuses on two hypothesised chains of effects:

- (a) that an increase in external resources (2.1), an increasing proportion of which are subject to the national budget (2.2), along with an increase in predictability of external funds to the national budget (2.3), leads to partner governments being empowered to strengthen systems (3.2) and hence to increased operational and allocative efficiency of PFM (3.5/3.6); and
- (b) that an increasing focus of policy dialogue, conditionality and TA/CB on key public policy and expenditure issues (2.4/2.5), when combined with increased budgetary resources (2.1), leads to an increase in the resources made available for service delivery (3.1).

B3.2 This chapter will first survey the public expenditure record of Uganda, and then evaluate the role of PGBS in relation to the six judgement criteria set out in the EEF. The final section will review the principal causality chains and counterfactuals. (Annex 4A provides a more detailed analysis of public expenditure trends and the impact of PGBS on the efficiency of expenditures.)

Relevant Facts: Trends in Public Expenditure²⁰

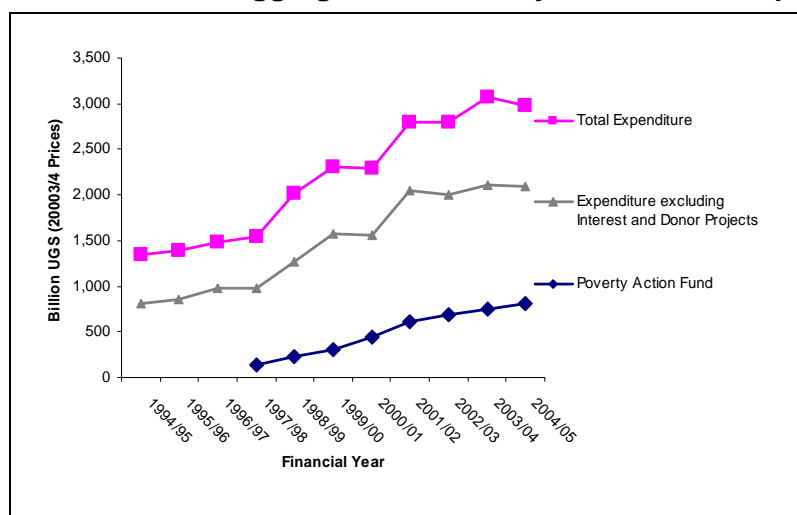
B3.3 Public expenditures have increased in real terms by 240% over the last 10 years, but the increase in public expenditure has been far more rapid since 1998/99, when the expansion averaged 13% a year, until 2003/04, in the context of buoyant aid flows as well as domestic revenues. This was more than double the rate between 1994/95 and 1997/98 at 6% (see Figure B3.1).

B3.4 Poverty Action Fund programmes represent Uganda's definition of pro-poor expenditures (see Box B3.1). A reorientation of budget expenditures has occurred towards those PEAP priorities protected under the PAF from 19% in 1997/98 to nearly 36% of discretionary GOU expenditures²¹ in 2003/04. The bulk of budgetary increases have accrued to the five main original PAF programmes; however, several additional programmes have been added to the PAF, broadening its scope. Moreover, the share of sector budgets being allocated to primary levels of service delivery has increased, reflecting significant reorientations of GOU expenditures within PAF sectors (see Annex 4, Table 4A.2). This has been particularly noticeable in roads and health (although once donor projects are included in these sectors, a much lower proportion of funding is spent directly on service delivery). It is also important to note that the PAF excludes those interventions which might indirectly reduce poverty, and not all existing PAF programmes are effectively targeted to the poor (see Box 3.1).

²⁰ A more detailed analysis of public expenditure and public financial management is undertaken in Annex 4A.

²¹ Excluding donor projects and interest payments.

Figure B3.1: Trends in Aggregate and Poverty Action Fund Expenditure



Source: Ministry of Finance.

B3.5 Public administration as a proportion of public expenditures fell from 15% in 1997/98 to 12% in 2003/04. On the other hand, the cost of financing the budget has increased significantly, with interest payments increasing from 5% of expenditures in 1997/98 to 9% in 2003/04. This has been caused by an increase in the stock of domestic debt as a result of sterilisation activities undertaken by the Bank of Uganda (BOU) (discussed in Chapter B6).

B3.6 Another striking trend is the increase in transfers to local governments which increased in real terms from UGS 276bn in 1997/98 to UGS 798bn in 2004/05 (2003/04 prices), and as a share of the discretionary GOU budget from 30% to 36% over the same period. About three-quarters of those funds are channelled via the PAF as conditional grants earmarked to specific PEAP priority programmes (see Annex 6 for more details on LG expenditure).

B3.7 There has been a significant increase in discretionary resources available to the GOU with the proportion increasing from 55% to 67% of the budget in real terms between 1994/95 and 2003/04 (see Annex 4, Figure 4A.3). However, the proportions of expenditure allocations made to statutory obligations (including debt service) and to wages have increased, reducing flexibility. Meanwhile, the expansion of the PAF, given the rigid and static definition of poverty reduction, has also served to undermine flexibility. These factors in combination have reduced the share of “discretionary” resources from 35% in 1997/98 to 25% of the budget in 2003/04. Discretion at the local government level is severely undermined by the rapid expansion and proliferation of earmarked conditional grants combined with declining local revenues and a relative decline in the unconditional grant.

B3.8 In aggregate terms, revenues and public expenditures are predictable in Uganda, with revenues and grants varying an average of 6% from the budget since 2000/01 and expenditures 4% from the budget, although arrears amount to more than 16% of expenditures. At the local government level, aggregate expenditures are far lower than budgeted, as a result of unrealistic local revenue and donor project projections (Williamson et al 2005), while central government grants tend to be spent in full by local governments. At both central and local government level there are significant variations in the composition of expenditures. At the central level, domestic interest payments and donor project expenditure are the areas of the budget with highest variability, and there are significant variations in expenditure across ministries (see Annex 4A).

Box B3.1: Definition and Tracking of Pro-Poor Expenditures in Uganda

The programmes in the Poverty Action Fund (PAF), which was formed in 1998, represent the Government of Uganda’s pro-poor expenditures. It is a virtual poverty fund which represents a subset of public expenditures in the budget which can be tracked through budget formulation and implementation.

Definition of PAF Programmes: at the inception of the PAF they were a selection of priority programmes from the 1997 PEAP. In 2000 a definition of pro-poor expenditures was agreed which set out criteria for new programmes to be included in the PAF. These were that programmes:

- must be in the PEAP;
- must be directly poverty-reducing;
- must deliver a service to the poor.

In addition, a further requirement was that a programme must have a well-developed strategy or plan.

Listed below are the original PAF programmes and the additional programmes included in the PAF since 1998. Since 2000, new PAF programmes have had to meet the PAF criteria.

Original PAF Programmes in 1998	Additions between 1998 and 2004
Primary education	District and referral hospitals
Primary healthcare	Adult literacy
Water and sanitation	Wetlands
Agricultural extension	Strategic exports (cotton, coffee, etc.)
Rural roads	Land
Monitoring and accountability	Microfinance and restocking
	Urban roads
	Community rehabilitation
	HIV/AIDS orphans
	Reduction of court-case backlog
	Local Government Development Programme

Tracking and Special Treatment: while allocations to PAF programmes are integrated within the MTEF, a separate PAF budget is presented in budget documentation. Originally the GOU committed to ensuring that increases to Sector and PAF GBS resulted in equivalent increases in the PAF budget, but now the GOU only commits to maintaining the PAF budget as a share of the total GOU budget.

Releases to PAF programmes, which are protected, were reported on in PAF quarterly reports until 2000; since then they have been reported in half-yearly budget performance reports against the PAF budget. Disbursements to PAF programmes are protected. Local governments, to which approximately three-quarters of PAF resources are channelled, report quarterly on expenditures and activities resulting from the grants they receive. A share of the PAF budget, originally 5%, is allocated to accountability institutions, line ministries and local governments for the monitoring of PAF programmes.

Emerging Concerns: while there have been additions to the PAF, no programme has been withdrawn from the PAF. There are concerns that this is leading to inefficiency and rigidities in budget formulation and, in particular, execution. The narrow definition of pro-poor excludes programmes which might indirectly improve the lives of the poor, while the early bias towards social services in the PAF has remained, despite efforts to increase attention to the productive sectors.

Source: Adapted from Williamson and Canagarajah 2003.

B3.9 Annex 4A documents evidence that the efficiency of public expenditure, in aggregate, has increased over the evaluation period. Public administration overheads have declined as a share of public expenditure and there has been a slight increase in the share of sector budgets allocated to service delivery; however, this has been offset by increases in domestic interest payments. There has been a slow but steady increase in recurrent spending relative to development since 1999/2000; this has been evenly distributed between salary and non-salary expenditures. Over the same period, there has also been an increase in domestic development expenditure relative to donor-financed projects, and there are indications that this has led to a slight fall in aggregate project overhead costs.

Assessment against Evaluation Criteria

Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General situation:	Level: ***	Trend: =	Confidence: **
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: **

B3.10 Combined increases in programme aid amounted to 31% of the real increases in total public expenditures between 1997/98 and 2003/04, while increases in donor project support contributed only 18% to these increases. The largest other contributor was domestic revenue, which amounted to 33% of public expenditure (see Annex 4A, Table 4A.1).

B3.11 PGBS has also contributed to a shift in public expenditure towards priority PEAP programmes, via the PAF. However, this undoubted success is tempered by legitimate doubts about the relevance and precision of the definition of poverty-reducing programmes, and hence the resulting expenditure composition. These increases were initially accelerated by the notional earmarking of HIPC combined with sector and PAF budget support as additional funding to PAF programmes which took place until 2002. Since then the earmarking to sectors and PAF has been truly notional, and has not had any direct effect on the size of pro-poor expenditures. Since then GOU has only committed to ensuring that PAF expenditures do not decline as a proportion of the budget. This commitment is seen by donors, regardless of the type of GBS, as being a central tenet of the partnership and is now the major way in which PGBS is influencing the levels of pro-poor expenditure.

B3.12 Increased allocations for PEAP priorities had the knock-on effect of increasing transfers to local governments (see Annex 4, Table 4A.2). This, combined with the fact that many donors have phased out area-based programmes in favour of co-financing the local government development grant (notionally earmarked sector budget support), has improved the equity of local government expenditures.

Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: ***	Efficiency: ***	Confidence: ***

B3.13 PGBS funds have made a strong contribution to the increase in external funding subject to the budget process. From the outset, all types of PGBS funding empowered the GOU to increase budget allocations to PEAP priorities. Even the commitment to additionality of notional earmarked sector and PAF GBS to budget allocations did not undermine flexibility early on, as they were contributing to under-funded priority PEAP programmes in the PAF, filling a funding gap, which GOU wanted to fill. Once additionality became a potential constraint, GOU withdrew the commitment.

B3.14 Many of the emerging rigidities being encountered in budget allocation by central government and by local governments can be traced back to the PAF. GOU's commitment to maintain PAF expenditures as a proportion of the GOU budget and disburse them in full, limits

government's discretion in budget preparation and in execution (see Annex 4, ¶5–8). Similarly the limited definition of poverty-reducing programmes in the PAF also results in the exclusion of interventions that are indirectly poverty-reducing. Insofar as this is an important element of the continued partnership between government and donors in Sector, PAF and full GBS arrangements, PGBS is now contributing to a degree of rigidity in expenditure allocations.

B3.15 Rigidities resulting from the increasing debt service obligation are primarily the result of domestic borrowing to sterilise aid inflows (see Chapter B6), while the increased wage expenditures are a logical consequence of the expansion of public services, which have been fuelled by PGBS.

Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: *	Efficiency: *	Confidence: ***

B3.16 The Rome Declaration on Harmonisation (OECD DAC 2003a) adopted the following good practice on the predictability of aid:

Multi-year programming of aid – donors, wherever possible, should programme their aid over a multi-year timeframe that is consistent with the financial planning horizon of the partner government, and are transparent about the circumstances under which aid flows may vary. The combination of longer term and more predictable finance enables partner governments to have more trust in the reliability of donor finance; this is necessary to plan increases in service delivery capacity, and facilitates macroeconomic management.

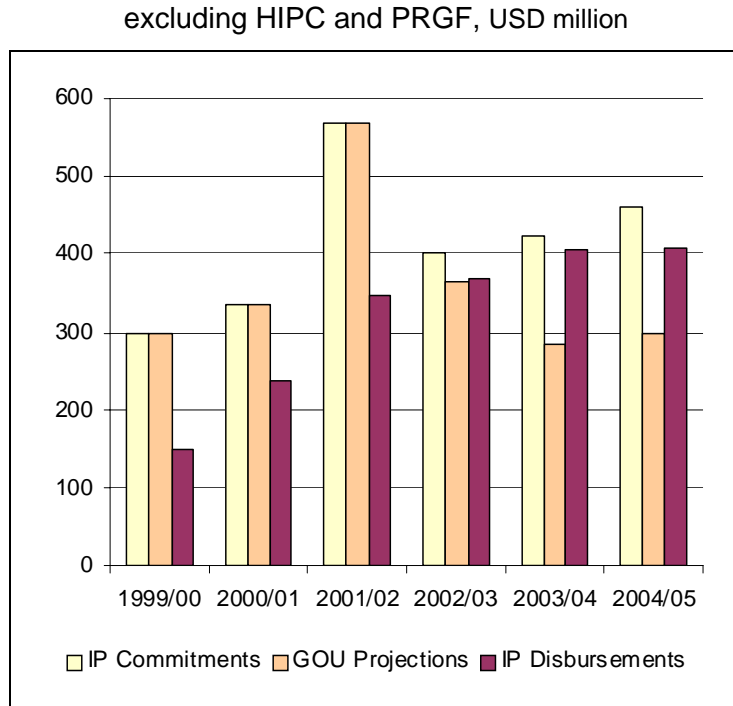
B3.17 The issue of predictability was explicitly discussed as part of the first PRSC design, but the World Bank and GOU opted for a series of annual single-tranche budget support agreements, on the basis that the risk of delays or interruptions was offset by the guarantee that funds would be fully disbursed once the prior conditions had been met (see Miovic 2004 for a review of the debate between annual and multi-annual approaches of the PRSC).²² Although each PRSC is technically a separate agreement, they are a linked series of operations whose preparation overlaps. As regards other PGBS instruments, some agreements are annual while others are for a fixed term of multiple years. To date only DFID has introduced a rolling medium-term agreement that matches the government MTEF cycle, having replaced its fixed multi-annual commitments from 2004/05.

B3.18 In practice, the contribution of PGBS funding to an increase in the predictability of aid flows and public expenditure has been weak, although there have been improvements in predictability in the last three years of the evaluation period. PGBS disbursements have tended to fall short of commitments. Over the three years 1999/2000–2001/02, the disbursement rate of programme aid (excluding HIPC) averaged 60% of budget. In 2000/01 disbursements were only 70% of projections, largely because the PRSC1, which the GOU expected in 2000/01, was not disbursed until 2001/02. In 2001/02, disbursements were 61% of budgeted, as only one FY's worth of PRSC was disbursed, while two were projected, and other donors such as the EC did not disburse. The shortfalls were partly offset by exchange rate movements, but the under-

²² See also the Synthesis Report (IDD and Associates 2006) for a full discussion of predictability, volatility and reliability of funding.

disbursements led MFPED to apply a 10% discount to donor programme aid commitments in 2002/03. This discount factor was increased further to 30% in 2003/04 and 2004/05.

Figure B3.2: IP Programme Aid Commitments and GOU Projections vs Disbursements 1999–2005



B3.19 However, since 2002/03 budget support disbursements have been more predictable, averaging 8% below commitments (or 27% above budgeted amounts). Project financing has also been erratic, although, for project aid within the budget, slightly less so than budget support. On average, there is no systematic under-disbursement, and over the four-year period of PGBS under review, disbursements only varied 1% from budget. However, it is likely that between projects there will be significant variations in disbursements, given the quality of project-by-project donor commitment data.

B3.20 It is also notable that the GOU has not actively sought to improve the short-term predictability of GBS. The Ministry of Finance appears comfortable with the large variety in procedures and different tranching methods, and has not pressed for a common disbursement arrangement. It is able to smooth the effects of the erratic timing by using its reserves. Despite its short-term volatility, PGBS has been provided consistently over the past six years. There has thus been some stability in its contribution to increased discretionary financing in the budget. In turn, GOU commitments relating to the PAF imply predictability of budget implementation.

Efficiency

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General situation:	Level: **	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B3.21 Annex 4A provides a detailed review of expenditure efficiency (allocative and operational) and the effects of PGBS. It notes that, in any country, expansion of public expenditures at over 10% a year is likely to reduce the pressure to maximise efficiency – attention will be focused more on capturing additional funds than on increasing the operational efficiency of existing resources. Nevertheless, there are clear indications that PGBS has helped to promote improvements in both allocative and operational efficiency, in the following ways.

B3.22 Allocative efficiency has been improved by the shift towards "pro-poor" expenditures that PGBS has facilitated. Moreover, through a combination of increasing discretion and encouraging notional earmarking to PAF programmes it has been possible to increase both recurrent and development funding to service providers, including local governments, relative to central ministries and the public administration sector. This has resulted in more efficient aggregate expenditure. Indications of improved operational efficiency include a better balance between recurrent and capital expenditures, and, within recurrent spending, a better balance between wage and non-wage spending – although there are signs of a reversal from the perspective of local governments since 2003 (Williamson 2005). In addition, there is evidence (see Annex 4A, Figure 4A.6) that GOU development spending is more efficient than donor-financed development spending. The increasing share of GOU spending within the total thus implies an increase in aggregate efficiency.

B3.23 However, it is important to temper these findings by highlighting three negative influences PGBS has had on the efficiency of public expenditure. First, as already noted, the rapid rate of expansion of public expenditure does not maximise the incentives for efficiency. Secondly, the cost of servicing the increasing domestic debt burden is reducing the overall efficiency of public expenditure. This has been caused by the need to sterilise aid inflows, and PGBS, as the major source of increases in aid, has contributed significantly to this (see Chapter B6 for explanation and analysis). However, it is important to emphasise that both of these are negative effects of increases in aid, and it does not matter whether aid contributes to this in the form of increased project or budget support. The third issue is more specifically related to PGBS. The operating rules of the Poverty Action Fund are limiting the contestability of budget allocations and this is undermining the incentives for efficiency still further, as described below.

Transaction Costs

The influence of PGBS on the transaction costs of the budget process and utilising aid.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B3.24 Transaction costs occur at all stages from initial negotiation of aid to its disbursement and the execution of the activities that it finances. Some of the transaction costs of PGBS are

particularly visible.²³ Although they have reduced in size, PRSC missions are still large and attention-demanding, especially on senior government staff. Sector review processes are similarly transaction-intensive (but they are not the preserve of budget support donors alone). Nevertheless it is quite clear that the overall transaction costs of administering budget support are substantially lower than for project aid. Despite the staff-heavy work in negotiating and monitoring PRSCs, the World Bank spends 50% less per USD disbursed on budget support than on project support (Miovic 2004). Moreover, this calculation underestimates the cost of administering aid as it does not include the transaction costs associated with project management units and the long-term technical assistance linked to projects, which often plays an administrative function. As Figure 4A.6 in Annex 4A shows, 14% of donor project support is taken up by long-term and short-term consultancy services as opposed to 2% in GOU projects. Although much of this is likely to add technical value, a substantial proportion is also likely to represent programme management costs, which PGBS does not incur. In addition budget support uses GOU procurement, disbursement and accounting procedures during implementation, and this represents a substantial cost saving for GOU compared with project spending that follows donor-specific procedures.

B3.25 Although the overall reduction in transaction costs is evident, there are areas of concern. First, from a local government perspective, the increase in funding via an increasing number of conditional grants has increased administrative costs for central and local governments in administering those grants. This is a feature of the planning and reporting systems developed by the GOU, but donor demands for accountability of PAF-conditional grants did contribute to the establishment of the system. Efforts are under way to rationalise reporting and conditions applied to local governments through the Fiscal Decentralisation Strategy, which should reduce such transaction costs.

B3.26 Second, with their involvement in Sector Working Groups, in the consultative budget process, and in various thematic groups, the involvement of IPs in the budget has increased and this could be interpreted as an increase in transaction costs. Overall, with no commensurate reduction in donor-financed projects (although SWAPs in themselves have helped reduce some of the transaction costs associated with projects including the multiplicity of dialogues associated with them), this means that transaction costs at a sector level are likely to have increased, not decreased. However, it is important to note that many of the collaborative structures that PGBS donors are involved in, such as sector working groups in the budget process and sector review processes, are necessary and valuable structures for transparent collaborative governance, and thus have significant value in themselves. Dialogue between central government and local governments is necessary to ensure collective ownership and understanding of government programmes and services. The added donor involvement does undoubtedly add a degree of transaction costs; a challenge for donors is to ensure that their participation also adds value (e.g. by raising the quality of analysis and management).

Principal Causality Chains

B3.27 The flow-of-funds effects have dominated the influence of PGBS on the efficiency and effectiveness of public expenditure. PGBS funds did not originate the visible improvements in the efficiency and effectiveness of public expenditures that have occurred, but they provided

²³ The larger number of smaller meetings required to organise an equivalent value of projects would be less spectacular, but no less onerous. GOU staff would like PGBS to be less transaction-intensive, but they do not want less of it. Similarly, available evidence suggests that aggregate staff costs for donors are also reduced. (At disbursement stage too, the transaction costs associated with PGBS – monitoring and reporting on agreed activities – have a positive value, unlike the verification of import invoices for old-style import support programmes.)

discretionary resources that have facilitated and reinforced them. Both the causality chains described in ¶B3.1 have operated, although not all the links have functioned as hypothesised.

B3.28 Thus, increased operational and allocative efficiency (3.5, 3.6) has been promoted mostly by the increase of funding through the budget (2.2), although budget financing costs have reduced instead of augmenting the effect. Predictability (2.3) has been less of a distinct factor – the GOU has been able to anticipate continued high levels of aid, but has had to take measures to cope with significant short-term unpredictability. PGBS has had an empowering effect on MFPEP (3.2), although MFPEP's concerns to strengthen the budget system pre-dated and encouraged PGBS rather than the reverse.

B3.29 PGBS has led to a substantial increase in resources for service delivery (3.1). This was a focus of dialogue (2.4) but it was donor more than GOU behaviour that adjusted as a result of the initial dialogue, by providing funds on-budget to support the GOU's PEAP strategy for service delivery (3.1). Early PAF and sector budget support was explicitly linked to budget allocations, through the GOU commitment to PAF additionality. The GOU no longer provides a guarantee of this mechanical relationship between PAF-earmarked funds and additional expenditures, but the relationship between PGBS resources and GOU expenditures continues to be mediated by the dialogue on the MTEF and the budget.

Counterfactual

B3.30 The alternative of continued structural adjustment funding and MDF-style debt relief was not available, but could have yielded many of the positive results, due to the strong budgetary processes that were established before PGBS. It is implausible that service delivery expenditures could have increased to the same extent through project modalities, since (a) the inefficiencies and fragmenting effects of off-budget projects were apparent; (b) project aid could not have been used to expand the recurrent costs of service delivery as actually happened; and (c) project aid did not decline, so the project aid counterfactual would have required an even greater increase in project disbursements.

B3.31 Sector approaches in Uganda have not developed as an alternative channel that pools donor resources but keeps them subject to separate donor procedures; SWAps and PGBS have been mutually reinforcing complements, not alternatives. This was made possible by the pre-existence of a strong budget process and strong technical leadership/political support to the budget process as well as to the poverty-reduction strategy on which it focused.

B3.32 Without the PAF and notional earmarking early on, it is unlikely that the boost to pro-poor expenditures would have been so large and rapid.

B4. The Effects of PGBS on Planning and Budgeting Systems

How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?

Introduction

B4.1 Previous chapters reviewed the effects of PGBS on harmonisation and alignment and on public expenditures. Taking account of the previous findings, the present chapter considers the systemic effects PGBS may have had on planning and budgeting systems and processes. The causality chain to be examined in the present chapter is whether advances stemming from dialogue and conditionality, TA and CB, and harmonisation and alignment have empowered government to strengthen its core budgetary and decision-making systems (point 3.2 on the Causality Map), so as to increase the operational and allocative efficiency of public expenditure (3.5, 3.6), strengthen incentives within government to adhere to policies and reporting lines (3.7), and enhance democratic accountability (3.8).

Relevant Facts: Planning and Budgeting Systems in Uganda

B4.2 Chapter B3 has already reviewed the allocative and operational efficiency of GOU public expenditure and noted the improvements that have occurred. As regards the PFM system, Uganda has had an ambitious and generally successful programme of reform over the last decade. This falls into three main stages:

- *Stage 1: aggregate fiscal discipline.* In the early 1990s the major focus was the establishment of aggregate fiscal discipline, enforced in 1992 through the move to cash budgeting and the development of a medium-term budgetary framework (MTBF), and top-down budgetary ceilings, which were set out in a Budget Framework Paper (BFP). Disbursements to key programme priority areas, such as primary education, were protected. From 1994 the World Bank started to orient its Public Expenditure Review process towards supporting the background analysis for the MTBF.
- *Stage 2: the allocation function.* From 1997 focus moved towards improving the efficiency and effectiveness of resource allocation through the introduction of the Medium Term Expenditure Framework (MTEF) covering all sectors and supporting an outcome-oriented budget, while simultaneously opening up the budget process, enhancing participation and transparency. The MTEF resulted in a sector focus, with intra-sectoral allocation of resources being delegated to sector working groups, and the development of sector strategies and sector wide approaches. The first iteration of the PEAP was finalised, and the Poverty Action Fund formed as a virtual mechanism for directing debt relief and budget support toward PEAP priorities.
- *Stage 3: the legal framework and accounting function.* Since 2000 the focus of reform has shifted towards improving the legal framework for budgeting and financial management, with the enactment of the Budget Act and the Public Finance and Accountability Act, and upgrading of the accounting function within government, which has included the introduction of an Integrated Financial Management System (IFMS).

B4.3 Regarding the quality of Uganda's PFM systems, there has been progress on all fronts, although success has not been uniform. Uganda's budget has become an increasingly reliable indicator of actual revenues and expenditures at the central government level. Local government budgets are less reliable, yet it is important to note that few local governments even had budgets at the start of the evaluation period. This credibility is marred by a large stock of arrears, which continues to grow in some areas. Meanwhile fiscal risk oversight is particularly weak in relation to statutory authorities and local governments. This indicates that, although aggregate fiscal discipline and predictability is strong, it is also fragile.

B4.4 Uganda's budget formulation process has remained relatively open and transparent throughout the PGBS period, and has unusually explicit links between policy and budgeting (PRSP ↔ sector strategies ↔ MTEF ↔ budget). While budget comprehensiveness has improved, and parliamentary involvement has been strengthened, there have been few improvements in the budget formulation process since the start of PGBS in 1998. Although budget execution, accounting and external accountability have all improved over the evaluation period, they still remain at best moderately effective, which indicates that many of the third stage of reforms have yet to have an impact and prove effective, despite substantial investments in these areas.

B4.5 The developments in PFM over the evaluation period summarised here and its current status are reviewed in detail in Annex 4B (using the PEFA performance indicators and HIPC assessment criteria as reference points) for central and local government, while Annex 6 includes additional analysis relating to PFM at decentralised levels.

Assessment against Evaluation Criteria

Systemic Effects on the Budget Process

Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General situation:	Level: ***	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B4.6 In answering this and later evaluation questions, it is important to note that the basic elements of the PEAP and the budget formulation process were in place before the move to partnership GBS. This was one of the foundations of the move to PGBS. In combination, sector review and MTEF processes have helped improve coordination and prioritisation in sectoral budget allocations across the whole budget.²⁴ The effects of PGBS have been in the nature of reinforcement rather than creation.

B4.7 Thus the higher proportion of on-budget funding (see Chapter B3) has increased the attention paid to the budget process by sectors previously dominated by projects (e.g. health, water and agriculture), and has increased the incentives for agencies to develop strategies and plans. There were two types of effect here. First, those sectors which, early on, received

²⁴ Uganda's MTEF process is ranked alongside South Africa's as being one of the two most successful in Sub-Saharan Africa (Evans and Holmes 2004).

increases in on-budget funding from the PAF discovered that engagement in the budgetary process could benefit them. Secondly, the increases in budgetary funding experienced by sectors which had developed SWApS and were part of the PAF acted as an incentive for other sectors to develop strategic plans and increase their poverty focus (the development of the SWAp for the Justice, Law and Order sector (JLOS) is a striking example of this). Thirdly, the predictability of PAF programme disbursements increased confidence of the benefiting agencies in the budgetary process.

B4.8 The extent of ownership of the MTEF system and the ceilings it entails is impressive: its merits were cogently explained to the evaluation team by sector agencies, which, in other contexts, might have bemoaned the frugality and interference of the Ministry of Finance. We noted in the previous chapter some of the limits on budgetary discretion, and the risk that PAF protection may now be having perverse effects: on those who benefit from it by encouraging complacency, and on those who do not benefit by undermining the predictability of disbursement and making it exceptionally difficult to attract funding – even if a strong poverty-related case can be made.

B4.9 Despite the rapid increase in discretionary resources since 2000, there has been little improvement in the technical quality of budget submissions, and there is a sense that the budget process is increasingly routine. There is still not enough pressure on sectors from the Ministry of Finance to improve efficiency, and donor groups often exert more pressure. The major exception has been the 2001 Budget Act, which was instigated at Parliament’s initiative, and increased their role in the process, increasing the potential for greater democratic accountability and transparency. Parliamentarians were reacting to what they perceived as a lack of involvement in the budgetary process as well, and one of the factors behind this would have been the increased discretion available to the government in the budget (i.e. it was now worth being involved in the budget).

Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: **	Confidence: **

B4.10 Accountability for public expenditures has many dimensions. One of the motives for PGBS is a recognition by donors that accountability to them as financiers may undermine the partner government’s domestic accountability. Domestic accountability in turn has many facets: e.g. horizontal accountability to service users, taxpayers and citizens; vertical accountability between tiers of administration; rule-based financial accountability, and broader accountability for results. The accountability effects of increasing the use of government systems and processes depend significantly on the quality of those systems and processes in the first place and on whether additional use directly or indirectly fosters improvements. In Uganda’s case, reform initiatives from the MFPED that preceded PGBS also strengthened the effects that PGBS could have on accountability. Despite these and other initiatives undertaken during the evaluation period, various PFM assessments show that the accountability of public expenditures has remained moderate at best in Uganda (see Annex 4B).

B4.11 All types of PGBS funds use the Government's financial management systems. In addition, some other aspects of GOU systems are used, where separate instruments are created in other countries. The fact that the PEAP acted as Uganda's PRSP in 2000, as opposed to a new planning instrument being created, meant that there was greater ownership of the process. In addition, unlike in other countries, the WB and IMF use the annual Background to the Budget to act as the PRSP annual performance report.

B4.12 The MFPED has taken a relatively open and transparent approach to the management of the budgetary process, but this was an explicit choice long before the move towards PGBS. Open quarterly PAF review meetings, early on, helped raise the profile of those expenditures. Emphasis at the sector level on broad involvement in sector review processes, including civil society organisations, has helped broaden the accountability, and some civil society stakeholders believe that donors have been central to ensuring they have a seat at the table. Reporting at sector wide level has also helped improve information on performance. There is also increased involvement of Parliament in the budget process through the Budget Act, and the initiative of MPs themselves. PGBS donors have been supportive of many of these initiatives, but at times they have inadvertently undermined domestic accountability processes as well (see Box B4.1).

Box B4.1: Donors Inadvertently Undermine Accountability in the Budget Process

The increased interest of Parliament in the budget process, following the passing of the Budget Act in 2001, should be seen as an important opportunity to strengthen the role of Parliament in resource allocation. During the 2004/05 budget process, the Cabinet (as it was entitled to) made changes to the proposed allocations in the budget framework paper before it was tabled to Parliament.

Development partners were unhappy about the changes, and used the opportunity of the annual Public Expenditure Review meeting to express their concerns. It so happened that Parliament's views were very similar to those of donors, but it was the donors, not Parliament that caught the newspaper headlines ("Donors Reject Budget"). This enabled the executive to criticise the donors' interference in Uganda's sovereign budget process, while the role of Parliament was all but ignored in the press.

If the development partners had held consultations with Parliament beforehand, and had publicly supported Parliament's stance, which was remarkably similar to that of the development partners, then this could have provided an opportunity to reinforce democratic accountability, rather than drawing criticism from the President.

B4.13 At the local government and service delivery levels, various initiatives have been launched to promote accountability, including the publishing of transfers and the use of public notices, participatory planning, and budgeting processes. The fact that a share of PAF funds were set aside for improving monitoring and accountability helped to ensure many of these initiatives were facilitated. However, the reliance on conditional grants to local governments has tended to reinforce upward accountability to the centre, rather than local accountability to citizens.

Durability

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B4.14 At the central government level the budget process has been relatively well internalised (in line ministries as well as MFPED, see ¶B4.8), and MFPED is able to manage the consultative budget process. There is a danger of the process becoming increasingly routine, with a return to incremental budgeting. Some sectors also expressed concern that they get inadequate guidance from MFPED on what makes an effective budget submission.

B4.15 For many of the more recent PFM reforms, it is too early to judge how well they will be internalised (e.g. IFMS). One of the advantages of the MTEF process is that it was relatively simple.²⁵ Many of the more recent reforms are far more technical and sophisticated, which may make internalising them more difficult.

Capacity development

The extent to which PGBS is supporting capacity development in PFM.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B4.16 The flow of PGBS funding has provided the strongest fillip for capacity development in PFM. By contrast, the benefits from TA and CB, and the resulting complementarities, have been more coincidental than systematic. Despite documented successes in budgeting there is still no coherent PFM reform strategy. PFM reforms are supported either through major donor programmes, such as the World Bank’s Second Economic Financial Management Programme (EFMP2), and DFID’s Financial Accountability Programme (FAP), or short-term donor-funded consultancies. There has been some effort to synchronise activities through the PGBS dialogue; however, actions remain weakly coordinated. The establishment of a Public Expenditure Management Committee (PEMCOM) was intended to improve coordination; however, the PEMCOM meets infrequently (Pretorius 2006). Therefore, although progress has been realised, PFM reforms have not been particularly coherent, and are poorly oriented towards upgrading PFM performance.

B4.17 In some areas the provision of technical assistance and capacity building has become more demand-responsive and better tailored to the needs of the government. For example, capacity-building programmes for local governments are now based on standard curriculums based on local government procedures and guidelines. The evolution of SWAPs has meant that complementary technical assistance and capacity building can be provided by IPs who have not participated in PGBS. For example, USAID is supporting local government capacity building under new guidelines prepared under the Fiscal Decentralisation Strategy, while Japan has provided TA to the Ministry of Finance. The EFMP2 has supported professionalising the accounting cadre at central and local governments, building core financial management competencies in government. There is a view that some of the PFM reform processes going on

²⁵ In technical terms – but political support was crucial (see Bird 2003).

have made excessive use of TA, rather than forcing the government to make indigenous capacity available within ministries.

B4.18 There are many instances where there are complementarities between financial and non-financial PGBS inputs in building capacity, but these complementarities have not been taken advantage of in full. Notably, there has been a mismatch between the non-financial PGBS inputs and the area where the most benefits of PGBS funding have been realised – in the expansion of local government service delivery. There has been proportionally too little attention to ensuring effective systems for allocating and deploying financial resources for decentralised service delivery, with most attention focused on central government financial management systems. Although capacity building is now more oriented towards local government systems and is demand-driven, there are legitimate concerns that new reforms are not supported by adequate levels of technical support and capacity building (as in the case of local government reforms already mentioned).

Principal Causality Chains

B4.19 The causality chain hypothesised in ¶B4.1 has operated. However, the major PGBS input which served to strengthen Ugandan PFM systems was the flow of PGBS funding which combined with the budgetary process and reforms which were already in train to increase the attention which spending agencies paid to that process. The effects through dialogue, TA and CB, and harmonisation and alignment, although significant, have been auxiliary; they might have been stronger if linked to a more coherent PFM reform and capacity-building process. The effects on democratic accountability are the weakest, with most of the improvements in a technocratic direction.

Counterfactual

B4.20 If there had been no budget support funding, improvements to planning and budgeting systems could have been continued, supported by TA and CB, but at a slower pace, because the added managerial pressure from PGBS-related conditionality and dialogue would have not been there, nor would the dynamism and incentives created by the rapid expansion of expenditures routed through the GOU budget. Similarly, it is unlikely that as much progress would have been made on cross-cutting PFM reforms if only sector budget support had been used. The pre-existence of a domestically owned planning and budgeting reform process, combined with political commitment to fiscal discipline, allowed a virtuous circle that enhanced the systemic effects of PGBS. Without this initial impetus, it would have been much more difficult to make progress.

B5. The Effects of PGBS on Policies and Policy Processes

How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?

Introduction

B5.1 This chapter considers whether PGBS has contributed to improving public policy processes and policies. The causality chain to be explored is whether policy dialogue focused on key policy priorities (point 2.4 on the Causality Map), together with capacity development (2.5) and donor support through harmonisation and alignment (2.6), has encouraged and empowered the government to strengthen pro-poor policies (3.3) and resulted in sector policies that are more pro-poor (4.4) and more supportive of private sector development (4.2).

B5.2 The time scale for PGBS to have significant effects on policy processes can be expected to be longer than that for the immediate flow-of-funds effects of PGBS. Moreover, it is one thing to identify an influence on policy processes; quite another thing to judge whether the resulting policies are appropriate.

Relevant Facts: Policy Processes in Uganda

B5.3 At a technical level the policy processes of the GOU are highly visible, and donors have been explicitly incorporated into those processes to a very unusual degree. The underlying political drivers of policy are less visible but certainly not less important.

B5.4 Earlier chapters have described the emergence of the PEAP as a central policy document for both GOU and donors, and the development of budgeting and policy processes. Donors are not simply an external influence upon the policy process but day-to-day and year-to-year actors within it. They participate directly in standing committees and consultative bodies and ad hoc task forces; donor staff – more particularly those based in Uganda – have ongoing informal relationships with GOU officials across government; they provide technical assistance, and undertake and finance studies and reviews; and they attach conditions and performance indicators to their aid. It would be naive to believe that donor influence is unconnected to the GOU's reliance on aid finance. Nevertheless, most of the time, GOU and its IPs appear to be collaborators in a common project. Occasional frictions, however, reveal the limits of the relationship and the significance of deeper political factors.

B5.5 Various observers²⁶ have explained this partnership relationship in terms of particular conjunctions of factors in Uganda. Concerning the adoption of fiscally disciplined and market-oriented policies, Ddumba-Ssentamu et al (1999) note the absence or weakness in Uganda of the particular vested interests that have resisted such reforms elsewhere. Moncrieffe highlights the utility to the NRM of poverty reduction as a route to national unity, and sees a three-way alliance between the presidency/executive, MFPED, and the donors around the programme of development and modernisation which the PEAP embodies. The GOU is seen as strong on strategy, weak in implementation capacity, and therefore open to engaging the donors in a dialogue that is primarily about priorities, ways and means rather than fundamentals. The enterprise is a strongly technocratic one, in which the capacity of MFPED, linked to strong political support from the President, is pivotal. Within that context, donors may influence the

²⁶ See especially Ddumba-Ssentamu et al 1999, Moncrieffe 2004, Piron 2004.

balance (e.g. in helping MFPED to overcome resistance) and promote or accelerate certain reforms. MFPED has empowered sector policy processes through the MTEF system: sector ceilings are a constraint on sectors, but also provide bounds within which sector groups can prioritise and attend to special sector issues. Compared to other countries, sector processes have become particularly effective mechanisms of policy development and review in Uganda. At the same time, MFPED itself readily becomes directly involved in key issues, particularly when they are cross-sectoral: the Plan for Modernisation of Agriculture (MFPED 2000f) and the task infant and maternal mortality (Task Force on Infant and Maternal Mortality 2004) are two examples. Through most of the evaluation period MFPED's management of the PRSC process has been a further demonstration of its key role. The shift of PRSC coordination and monitoring responsibilities to the Office of the Prime Minister (OPM), though logical,²⁷ is seen by some observers as a sign that both MFPED and the coalition of President–MFPED–donors has weakened.

B5.6 The significance of deeper political factors is revealed in areas where IPs find they have less influence than some at least would wish to have. Thus, although the PEAP includes a governance agenda, friction has arisen over major issues that have a strong political dimension (defence budgets and regional conflicts, high-level corruption – which is often politics-related, see Chapter C5 – multi-party politics, and amending presidential term-limits). The GOU and donors have collaborated strongly over decentralisation, but the supremacy of political factors over considerations of technocratic efficiency is seen in the continual creation of new districts. As we discuss in Chapter B9, the ability of PGBS to operate effectively in future circumstances when political and developmental interests are less well aligned will be an important test of sustainability.

B5.7 During the evaluation period, two other sets of stakeholders – Parliament and civil society – have been outside the "inner circle" of President–MFPED–donors (see Piron 2004 for discussion of their involvement in the PEAP/PRSP process). Even with explicit party affiliations suppressed, there have been elements of opposition to the government within the legislature, and Parliament instigated the 2001 Budget Act which strengthens its own role, including giving them an opportunity to comment at budget framework paper stage and not only when the budget is formally presented for approval.

B5.8 It is important not to assume that the donors represent a single set of interests; there are different biases even within donor agencies (sector-focused staff may have different instincts from the generalists and economists more involved in the PRSC, for example); there is a range of interests among bilaterals, and the multilateral donors tend to be more circumscribed by their formal mandates than the bilaterals.

²⁷ See additional comments in Chapters B9 and C5.

Assessment against Evaluation Criteria

Influence on Reform Process

Ownership and effectiveness

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government...			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.9 The extent of GOU ownership of the PEAP-centred reform process has already been discussed (Chapter B1). It was not originated by PGBS, but the introduction of PGBS has been very significant in helping to maintain and develop the reform process by focusing donor attention on it. Focusing donor finance on it has also helped to increase coherence by reinforcing the interest of sector agencies in participating in these policy processes.

Participation

...in which, an appropriate range of stakeholders is involved in policy formulation and review			
General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.10 Some stakeholders are much more deeply and effectively involved than others, both in the processes most directly related to PGBS (notably in drafting and negotiating the PRSCs which are the leading edge of PGBS policy dialogue and conditions), and in the wider processes that address policies, plans and budgets at central, sector and local government levels. Nevertheless PGBS has tended to widen participation in a number of ways. Most immediately it has widened the range of bilateral as well as multilateral donors directly engaged in central as well as sectoral policy processes. The PEAP that it supports espouses a philosophy of participation and has provided forums in which civil society organisations have been able to contribute (though Piron notes the limits of the engagement, in terms of which organisations are invited, and the forums in which they are included). Donors have been influential both in seeking the involvement of civil society organisations (CSOs) and, in parallel to PGBS, providing them with funds and other support. Many CSOs have welcomed the move towards budget support, combined with their involvement within the dialogue and accountability processes. However, as time has gone on, they have become increasingly concerned about the government-dominated agenda, and often feel marginalised in the dialogue, feeling that they are only really present at the table because of the donors. Participatory Poverty Assessments have, within their limits, given a virtual voice to the poor. At the same time, greater donor involvement in policy processes has had some negative consequences, especially when it has tended to crowd out legitimate national stakeholders. Often Parliament has seemed, and felt itself to be, left rather on the sidelines (see Box B4.1 in the previous chapter).

Learning

...in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances			
General situation:	Level: **	Trend: =	Confidence: ***
PGBS influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.11 The policy processes surrounding PGBS are certainly not sterile. It is not possible, or particularly useful, to ascribe exclusively to PGBS the learning and adaptation that takes place, but there are plentiful examples of significant policy development, and not solely related to the social sectors on which PGBS finance has been concentrated (e.g. the Plan for Modernisation of Agriculture (MFPED 2000f), the Medium Term Competitiveness Strategy (MPED 2000a) as well as monitoring and reviews that have led to adaptations of policy or implementation (the influence of the first tracking study (Ablo and Reinikka 1998) on the transparency of school grants is a famous example). It is significant that two of the policy moves that have had dramatic pro-poor effects – universal primary education (UPE)²⁸ and the abolition of health care charges²⁹ – were introduced unilaterally by GOU despite initial donor scepticism. Feedback and adaptation in the context of PGBS are further considered in Chapter B9.

Influence on Policy Content

Public and private sectors

...in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors			
General situation:	Level: *	Trend: +	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B5.12 Through its integration with the wider systems already described, PGBS has helped promote a more holistic view of strategy and a more coherent reform process across and within sectors. Arguably, however, it has tended to focus on public services delivered by government, with a relative neglect of private sector development. At the same time, it has provided a forum and instruments that can address cross-cutting issues more effectively, and concerns about the market and regulatory environment and about the balance between public and private sectors have increasingly found expression within the dialogue (see further discussion in Chapter C2 below).

Sector policies

...in which, appropriate sector policies complement public expenditures			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency:***	Confidence: ***

B5.13 It is beyond our scope here to offer a judgement on the quality of all the sector policies that PGBS has supported or helped to develop. However, the essence of the GOU policy, planning and budget systems that PGBS supports is to ensure an operational link between

²⁸ See Stasavage 2003 and Murphy et al 2002 on the democratic impetus for UPE and on the parallel factors that allowed the political commitment to be implemented.

²⁹ On the pro-poor effects of abolishing healthcare charges, see Deininger and Mpuga 2004b.

sector policy processes and expenditure decisions. This link is particularly strong in the SWAp sectors, but has had a demonstration effect on other sectors. In a context of rapid expansion of public expenditures, it is not surprising that efforts to expand services have predominated over complementary efforts to improve their effectiveness and efficiency (a point taken up in Chapter B7). Nevertheless, PGBS is clearly helping to strengthen the systems for simultaneous review of expenditure performance and associated policy implications, and thereby contains the seeds for rectification of the initial bias.

Principal Causality Chains

B5.14 The pivotal link in the causality chain set out in paragraph ¶B5.1 is "empowered and encouraged the government to strengthen pro-poor policies (3.3)". It is clear that PGBS has done this, in a context where the GOU had a pro-poor agenda to begin with. Effects in terms of policies that are more pro-poor are more tenuous, although PGBS has certainly helped to keep a focus on the poverty impact of policy and to review policies from that standpoint. Similarly, without necessarily concluding that existing policies are adequately supportive of private sector development (likely to be a controversial call in any case), it is possible to point to areas where consideration of private sector implications is becoming more salient, with support from the general PGBS dialogue in doing so (see more in Chapter C2 below).

Counterfactual

B5.15 PGBS did not create the reform process nor inaugurate the main thrust of pro-poor policies. The GOU's political concerns and MFPED's management agenda provided a context in which PGBS was able to be particularly and rapidly effective. Many specific policy initiatives have been supported through individual projects, but SWAp processes at sector level have been especially effective in linking policies to expenditures and developing coherent sets of sector policies, while PGBS has brought an added level of integration that would have been far more difficult in its absence. The dialogue and conditions (agreed performance targets) of PGBS played a positive role in refining policy and in providing additional impetus to key reforms.

B6. The Effects of PGBS on Macroeconomic Performance

How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?

Introduction

B6.1 This chapter relates to the transition from Level 2 (immediate effects) to Level 4 (outcomes) of the EEF. It will cover two streams of effects/PGBS inputs (i.e. all Level 2 immediate effects/activities as they relate to improved fiscal discipline and a growth-friendly macroenvironment) postulated in this framework.

B6.2 The main causal hypotheses to be tested are:

- (a) that more external resources for the GOU budget (2.1), an increase in the proportion of funds subject to the national budget (2.2) and an increase in predictability of external funds to the national budget (2.3) result in improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6);
- (b) that policy dialogue/conditionality focused on key public policy and public expenditure issues (2.4), TA and capacity development focused on key public policy and public expenditure issues (2.5) and IPs moving towards alignment and harmonisation around national goals and systems (2.6) lead to improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6).

Relevant Facts

B6.3 As we highlighted in the early chapters of this report, Uganda has a track record of fiscal discipline and macroeconomic stability which has been maintained throughout the evaluation period. Uganda has thus managed to maintain low inflation (see Figure 2A.1 in Annex 2). The emphasis on maintaining tight control over aggregate public spending, with the move to a cash budget, is central to this. The increasing predictability of aggregate expenditure against the budget is also an indicator of the nature of fiscal discipline (see Annex 4A for details). In addition, tight monetary policy has helped restrain inflation. Fiscal and monetary discipline was established well before the move to PGBS linked to the PEAP.

B6.4 The potential macroeconomic effects that can be attributed to PGBS depend on the degree to which PGBS adds to the total of aid or substitutes for other forms, and, if it is a substitute, the form of aid it is a substitute for. In Uganda there has been both an increase in aid and a relative switch by donors from project to budget support. Since the late 1990s there has not, however, been a significant rise or fall in the USD value of project support, and PGBS has mainly been a substitute for other types of programme aid, notably balance of payments support. Therefore, the main effect of PGBS, from a macroeconomic point of view, has been to increase the total volume of aid (its substitution for balance of payments support has little macroeconomic consequence).

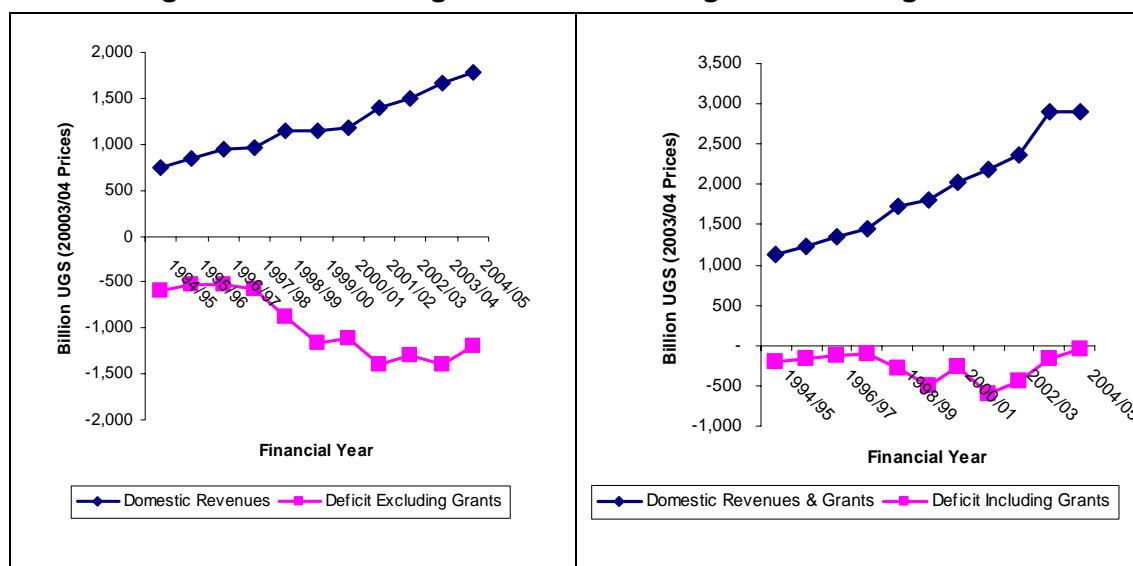
The fiscal deficit and aid

B6.5 Up to 1997/98 the budget deficit both including and excluding grants was reduced significantly (Figure B6.1). By that time the deficit amounted to UGS 600bn (2003/04 prices) or 6% of GDP, while including grants it was minimal at UGS 100bn or 1% of GDP. However, between 1997/98 and 2000/01 the deficit increased rapidly. By 2001/02, excluding grants, the deficit had more than doubled to UGS 1,400bn, or 12.2% of GDP. Correspondingly within three fiscal years the budget deficit including grants grew to UGS 600 bn or 5% of GDP.

B6.6 The expansion in the fiscal deficit corresponds with the increases in aid which gained pace in the late 1990s. In effect the budget deficit was initially a dependent variable which the Uganda authorities have managed in line with the availability of PGBS resources and other aid. Therefore, although the deficit reflects the paucity of domestic revenues relative to expenditure needs, since 1999 the deficit (both excluding and including grants) has expanded in response to the increased availability of aid fuelled by PGBS. Given the fact that domestic revenues have been relatively buoyant and expenditures have been increasing rapidly, this implies that increases in aid have been used to expand public expenditure, rather than as a substitute for domestic revenues.

B6.7 The macroeconomic effects of the large budget deficit are emerging as a key concern in Uganda. Since 2002, the GOU decided to limit the size of the deficit, due to concerns over its effects on the private sector, and it now aims to reduce it significantly over the medium term. Although the absolute value of the deficit excluding grants has not declined significantly, as a share of GDP it had fallen to less than 9% of GDP by 2004/05, while the deficit including grants has been reduced significantly in absolute and relative terms and was again well below 1% of GDP by 2004/05.

Figure B6.1: The Budget Deficit Excluding and Including Grants



Source: Ministry of Finance, Budget Speeches.

B6.8 Increases in foreign aid inflows have increased aggregate demand and liquidity in the economy, and this presents a challenge for macroeconomic management. In an economy such as Uganda, the supply response to an increase in liquidity is slow, and if increases in aid are not to be inflationary then the additional liquidity in the economy must be sterilised (see Box B6.1 below). This can be done either by selling foreign exchange or by raising domestic debt.

The first option results in pressures to appreciate the exchange rate, which will have, *ceteris paribus*, an effect of reducing Uganda's competitiveness, while the latter puts upward pressure on domestic interest rates, discouraging domestic private sector borrowing as well as incurring debt service costs to government.

Box B6.1: Liquidity Management in the Presence of High Inflows

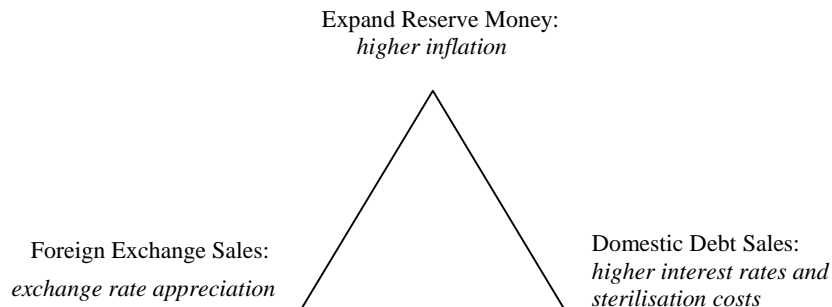
The following description by the IMF of the trilemma facing the Tanzanian authorities in managing high donor inflows is equally applicable in Uganda:

“Given the natural lag in the expansion of absorptive capacity, the surge in aid inflows and the resulting increased liquidity present challenges to monetary policy. On the one hand, aid inflows allow for increased investment and poverty reducing expenditures as well as boost domestic demand. On the other hand, the resulting rise in liquidity threatens the *central bank's* ability to meet its reserve money targets.

The challenge lies in effectively balancing the pressure on prices from increased liquidity versus the pressure on interest rates from the expansion of sterilisation operations, and on exchange rates from increased foreign exchange sales. For a given reserve money target, increased sales of foreign exchange may adversely affect export competitiveness through an exchange rate appreciation. Conversely, the use of domestic debt sales for sterilization may (i) put upward pressure on interest rates, crowding out credit for private sector investment and (ii) strain the *central bank's* balance sheet as it absorbs the interest it pays on domestic paper (and put pressure on the government's budget as the costs of sterilization are eventually borne there).

The appropriate *policy mix* between these options has consequences for prices, the exchange rate and/or interest rates, and ultimately for growth and macroeconomic stability. A successful monetary response is one that avoids a jump in interest rates, an overshooting of the exchange rate or a surge in inflation.

The trilemma: absorbing high inflows requires some combination of changes in inflation, interest rates and exchange rates



The challenges of liquidity management underline the importance of improving the supply response and absorptive capacity of the economy. In this context, key focus areas include improving the business environment, expanding the availability of bank credit, strengthening labour productivity, and addressing infrastructural bottlenecks, particularly in the areas of transportation, utilities, and telecommunications.”

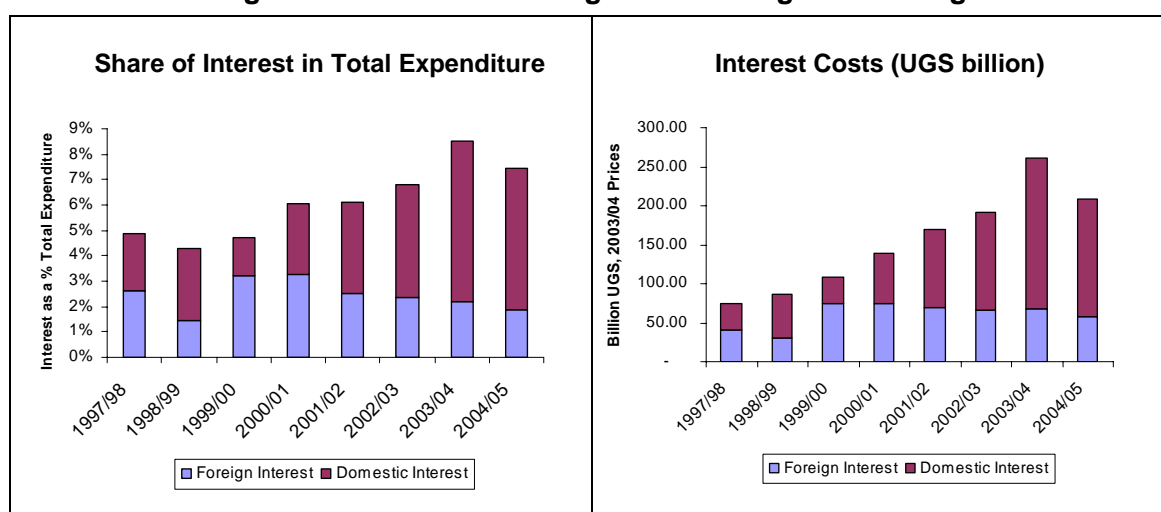
Source: IMF 2005.

B6.9 The Bank of Uganda, unusually, has judged that problems of adverse terms of trade (via exchange rate effects) are more serious than the effects of high domestic interest rates on the private sector, where, as we shall see, investment has been relatively buoyant. Therefore it

has chosen a strategy which relies to a relatively high degree on sterilisation through the issuing of Treasury Bills, relative to selling foreign exchange.

B6.10 This increased sterilisation activity has led to the increases in domestic financing costs mentioned in Chapter B3. While interest on external debt has declined, domestic interest payments have exploded in recent years as shown in Figure B6.2. Interest payments have gone up six-fold in real terms, and quadrupled as a percentage of GDP from 0.5% to 1.9% of GDP, with nearly 75% of these payments being on domestic debt. This increase from 3% to 8% of expenditures, greater than expenditures on the health sector, represents a significant and increasing cost to government, and has been directly caused by an increase in the stock of domestic debt from 1% to 10% of GDP since 1999. It does, however, appear that the negative trend was stopped in 2005/06 with a slight decline in domestic interest payments.

Figure B6.2: The Increasing Cost of Budget Financing

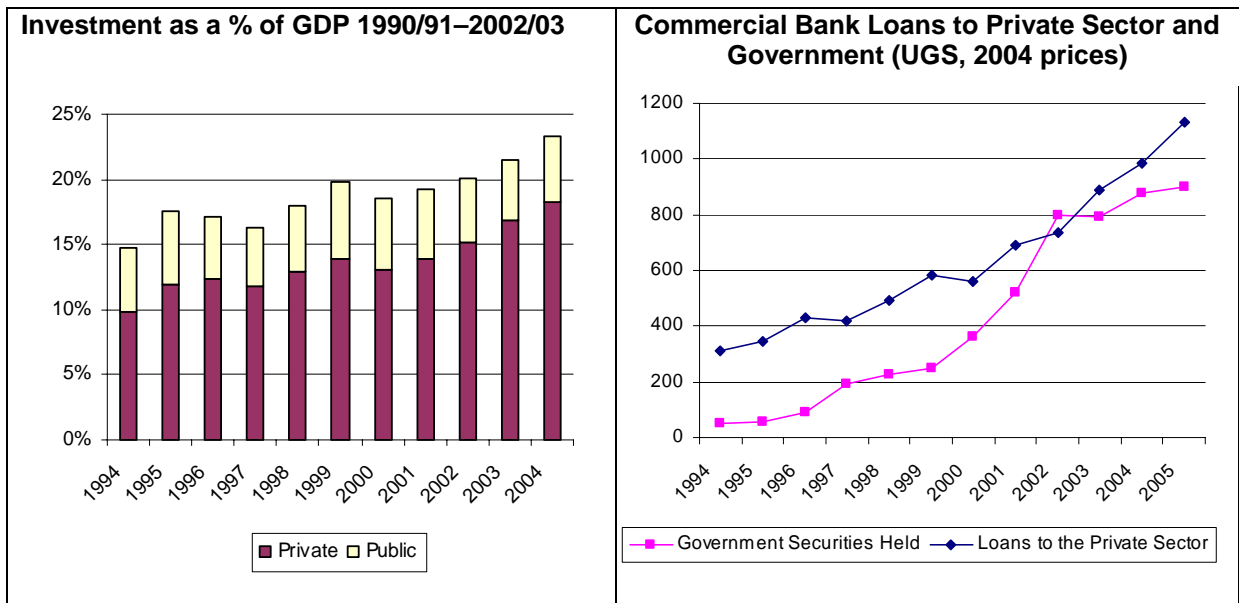


Source: MFPED Budget Speeches.

The dilemma – the effect of the deficit on the private sector

B6.11 The need for sterilisation is an indicator of a deeper problem of supply constraints and the need to increase the absorptive capacity of the Ugandan economy, and its ability to respond to increases in aid. This, along with the impact of the large fiscal deficit, is at the heart of the tension between growth of the public and private sectors.

B6.12 The GOU has had to weigh up the cost of high donor inflows in terms of (feared) upward pressure on real exchange rates and domestic interest rates on private sector investment and growth, relative to the benefits of increased aid. There is an ongoing debate in this area, with some arguing that aid is, overall, likely to have a net positive effect (Nkusu 2004, Bevan and Adam 2004). However, the GOU has taken the line that the deficit before grants should not be allowed to grow any further as a proportion of GDP, and aims to reduce it over time to 6.5% of GDP. Some development partners are concerned therefore that the GOU may be turning away aid that could accelerate progress towards the MDGs, but the Ministry of Finance takes the view that the adverse effect of the deficit on private sector growth would undermine the GOU's long-term ability to meet the MDGs.

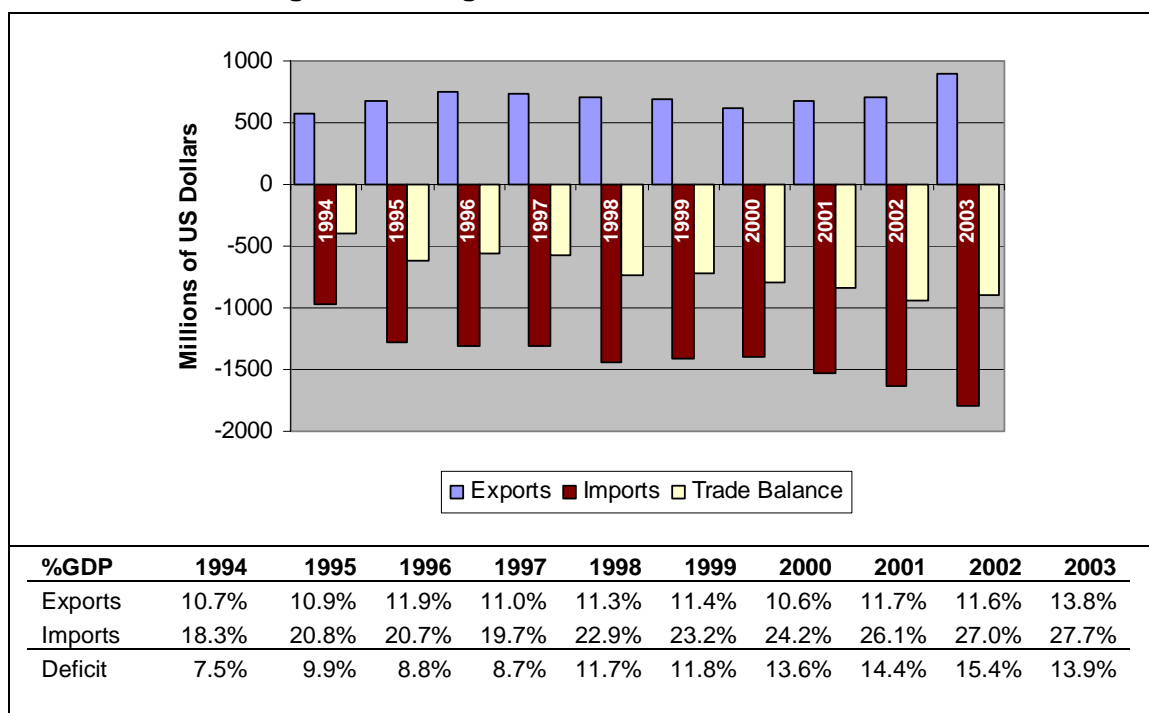
Figure B6.3: Investment by and Bank Lending to the Private and Public Sectors

Source: Bank of Uganda.

B6.13 Meanwhile, investment has actually grown significantly over the last decade from 15% of GDP in 1994 to 23% in 2004. Most notably, private sector investment has steadily increased from 10% of GDP in 1994 to 18% in 2004 (see Figure B6.3), while public sector investment has stayed constant at approximately 5%. Commercial lending has more than tripled during the evaluation period, but commercial bank holdings in government securities have grown more in absolute terms, momentarily overtaking lending to the private sector in 2002, which indicates that commercial lending might have been even higher if there had been less sterilisation activity. Although public sector spending has grown as a proportion of GDP, public sector investment has stayed static at approximately 5% of GDP. This implies an increase in government consumption expenditure relative to investment. (But, as we saw in Chapter B3, the balance between recurrent and capital expenditures in GOU spending is now more appropriate; much of the increase in "public consumption" is actually the recurrent costs of a long-term investment in human capital through basic health and education services.)

B6.14 Similarly exports have been growing significantly (Figure B6.4). Export volumes have increased significantly over the past decade, with the export volume index registering a 240% increase between 1991 and 2001. As a proportion of GDP, exports remained relatively stable, at 10–12% of GDP early on in the evaluation period, although there are signs of a possible increase in share since 2000. A decline in export earnings in the 1990s reflected a marked deterioration in the terms of trade and, in particular, a decline in the price of coffee, Uganda's main export, since the mid 1990s. Since 2000 exports have recovered from USD 614m to USD 897m in 2003, which reflects the fact that Uganda has managed to diversify its export portfolio away from coffee since 1998/99, when coffee still represented 56% of export of goods. In 2002/03 coffee was only 21% of exports, with exports of fish, flowers, and tea growing rapidly. The sterilisation policy of the Bank of Uganda also appears to be working as in the last two financial years the terms of trade have not deteriorated as significantly, which also explains the recovery in the dollar value of exports. However, it is also likely that export volumes would have continued to grow even in the absence of the sterilisation policy. (For trends in the real effective exchange rate see Annex 2, Figure 2A.4.)

Figure B6.4: Uganda Trade Balance 1994–2003

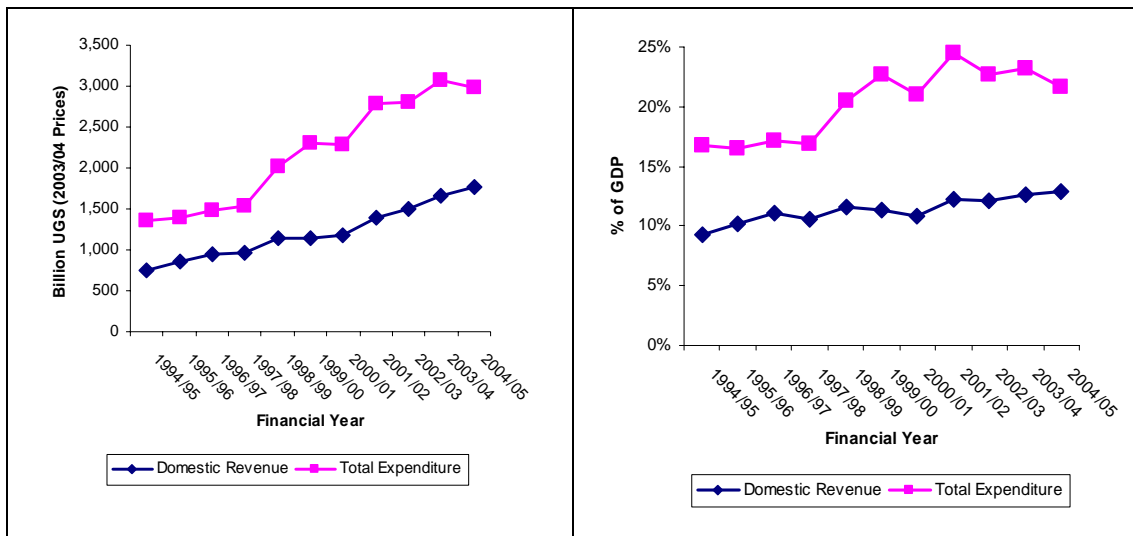


Source: IMF IFS 2004.

Domestic revenues

B6.15 In the four financial years 1994/95 to 1997/98 domestic revenues increased faster than expenditures (Figure B6.5). Since 1998/99 revenues have been increasing far more slowly than expenditure, and less than half the increase in budget expenditures has actually been financed by domestic revenue. While between 1997/98 and 2003/04 the rate of growth in public expenditure was double that between 1994/95 and 1997/98, the rate in growth of domestic revenue actually slowed slightly from an average of 10.4% to 9.2%, but this still represents buoyant tax revenue. Until 1996/97 domestic revenues were increasing rapidly as a proportion of GDP, but domestic revenues stagnated at around 11% of GDP until 2000/01, after which they increased steadily to nearly 13% of GDP by 2004/05. This, combined with a slowdown in the increases in public expenditures since 2001, has contributed to the deficit falling as a share of GDP since 2002.

Figure B6.5: Public Expenditure Relative to Domestic Revenues



Source: Ministry of Finance, Budget Speeches.

B6.16 In 2005 the GOU suspended the Graduated Personal Tax, the major own revenue source for local government, without a replacement being introduced. This means that domestic revenue is almost entirely dominated by central collections by the Uganda revenue authority, and that local governments are now almost entirely dependent on central transfers.

Assessment against Evaluation Criteria

Macroeconomic Effects

Fiscal discipline and macroeconomic stability

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability			
General situation:	Level: ***	Trend: =	Confidence: ***
PGBS influence:	Effect: na	Efficiency: ***	Confidence: **

B6.17 In the early 1990s balance of payments support was crucial in enabling the GOU to re-establish fiscal discipline, by increasing foreign exchange and providing sufficient funds to enable the restructuring of public expenditures and the clearing of arrears.³⁰ The track record of fiscal discipline was a factor that encouraged the PGBS donors. Although PGBS cannot be credited with introducing fiscal discipline and macroeconomic stability, it has certainly been easier to maintain fiscal discipline in a context of increased budgetary resources than it would have been otherwise. Also, despite short-term unpredictability, the fact that donors have continued to provide PGBS over a five-year period (i.e. provided long-term predictability of the availability of the modality), without any sudden withdrawals, has helped ensure that PGBS has not had a destabilising effect on the macroeconomy.

³⁰ Although, as the evaluation of programme aid (Ddumba-Ssentamu et al 1999) made clear, the re-establishment of fiscal discipline was not a direct result of the conditionalities attached to programme aid, it played a facilitating role once the GOU became committed to fiscal discipline.

B6.18 PGBS has also helped to promote fiscal discipline and macroeconomic stability in more subtle ways:

- First, while PGBS disbursements have been unpredictable over the short term, it has facilitated longer-term aggregate expenditure predictability, by allowing the BOU to build a large stock of foreign exchange reserves. This facilitates cash management, and enables it to handle external shocks to the economy, as it is able to smooth the results of volatile foreign exchange inflows using reserves.
- The second way is through the other PGBS inputs. The fact that PGBS funding is linked to the GOU being on track with the IMF, and hence a successful dialogue with the IMF, still exerts some external discipline to the technical aspects of macroeconomic management. In addition there exists a macroeconomics working group, and TA is provided to the Macroeconomics Department in the MFPED by PGBS donors, which supports the technical capacity which is already significant.

Cost of budget finance

The extent to which PGBS funding has reduced the cost of budget financing			
General situation:	Level: **	Trend: –	Confidence: ***
PGBS influence:	Effect: perverse	Efficiency: na	Confidence: ***

B6.19 Although the majority of PGBS has been provided in the form of grants, PGBS in Uganda has, perversely, increased the cost of budget financing. The increase in aid flows to Uganda has resulted in an increase in the need for sterilisation, to avoid the inflationary impact those aid flows might have. The strategy the Bank of Uganda (BOU) has chosen (relying more on sterilisation by issuing government securities than on selling foreign exchange on the open market – see Box B6.1 above) has resulted in the increased cost of financing the budget.

B6.20 Insofar as PGBS has been a major source of the increase in aid inflows and therefore increased the scale of sterilisation needed, it can be said that PGBS has resulted in an increase in the cost of budget financing. However, in principle PGBS funds should be no harder to sterilise than project support and this is a feature of increased aid flows, not PGBS as such. The increases in domestic interest payments amount to an equivalent of 18% of the increases in PGBS between 1997/98 and 2003/04, which demonstrates a very large loss in efficiency (see Annex 4A for further discussion of the cost of budget financing).

B6.21 The dialogue on sterilisation has largely been conducted in the context of the IMF. While initially the IMF emphasised only the importance of maintaining monetary reserve targets through sterilisation, more recently the IMF has been encouraging the GOU to shift the sterilisation strategy towards foreign exchange sales and away from domestic borrowing.

Private investment

The extent to which PGBS funding of public expenditures has adversely affected private investment.			
General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: *

B6.22 Public expenditures may affect private investment in the long term through their effects on public services and on the country's stocks of physical and human capital. In the short term,

effects on interest and exchange rates and on the availability of funds for investment ("crowding out") may be more significant. Although private sector investment has increased throughout the evaluation period, high domestic interest rates undoubtedly have a dampening effect on private sector investment, although this is likely to be limited to formal, large-scale investors. High interest rates have in part been caused by increased inflows of aid, fuelled by PGBS. Weighing this up against the positive effects of public policy, including macroeconomic policy and the impact of public expenditures on the environment for private investment, is difficult.

B6.23 The fact that private sector investment and export growth are still strong suggests that the economic environment still is conducive to growth, although higher investment levels and exports might have been possible with a different policy mix. This issue is reviewed in more general terms in Chapter C2 below.

Domestic revenue

The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection.			
General situation:	Level: *	Trend: +	Confidence: ***
PGBS influence:	Effect: Not found	Efficiency: NA	Confidence: *

B6.24 There is little evidence to suggest that aid, or PGBS in particular, has dampened domestic revenue collection. There have been real increases in the tax take year on year, and, as noted, additional aid flows clearly translated into additional expenditures. Despite corruption in the Uganda Revenue Authority (URA) (Fjelstad et al 2003) and low tax/GDP ratio, it is not self-evident that performance is particularly poor (it can be argued that the structure of the economy and its land-locked situation result in a relatively low revenue potential). Moreover, it should be noted that the slowdown in the recovery of the tax to GDP ratio occurred well before the large increases in aid and PGBS in the late 1990s, while since 2002 there are signs of acceleration in domestic revenue mobilisation. It can also be argued that pressure from the dialogue contributed to recent reforms in the URA, which began to yield results in 2005.

B6.25 There is one exception, where it can be argued that PGBS has directly undermined domestic revenue collection. The rapid increase in conditional grants to local governments, in part fuelled by PGBS, has made it easier for the GOU to erode LGs' own revenue sources, notably the graduated tax; its suspension was announced in 2005 after years in which collection was politically undermined, although it was compensated by increases in other central taxes. While late in the day development partners did collectively oppose the withdrawal, many individual donor staff actually supported the government in withdrawing this tax because of its regressive nature, which gave unclear signals to GOU. The withdrawal ultimately is likely to undermine the sustainability and accountability of local government (see Annex 6).

Facilitating Institutional Change

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).			
General situation:	Level: ***	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: *

B6.26 The GOU's commitment to macroeconomic stability has been unstinting. This manifests itself in areas such as the maintenance of the policy of cash budgeting, and the robust sterilisation policies implemented by the Bank of Uganda. Underlying this commitment is strong leadership and improving technical capacity within the MFPED and BOU combined with an executive and Parliament that understood the need for fiscal discipline, having seen the costs of lapse in discipline in the early 1990s. This commitment to macroeconomic stability within the MFPED and the Bank of Uganda has also led to changes in institutional behaviour within other arms of government. Government spending agencies now accept top-down resource ceilings, and the need for controls to ensure that releases during the financial year are made on the basis of cash availability.

B6.27 A key emphasis of the MFPED leadership in the late 1990s was that stability was central to maintaining the confidence of the private sector. Sustained economic growth at 6% p.a. and increases in private investment from 10% to 15% of GDP must indeed have been in part due to macrostability being maintained, considering that there has been an environment of high interest rates and unfavourable terms of trade. The continuing availability of aid resources, and especially the discretionary resources provided through PGBS, has increased the credibility of the Uganda authorities and made it easier to combine macroeconomic discipline with the pursuit of other national objectives.

Principal Causality Chains

B6.28 With regard to both the causality chains examined in this chapter, it appears that PGBS did not originate the links. The crucial link in both chains is fiscal discipline (3.4), which was achieved before PGBS was introduced, and was a key factor in giving IPs the confidence to entrust GOU with discretionary resources. Programme aid in the early 1990s was instrumental in helping the GOU re-establish fiscal discipline. Subsequently, PGBS has had a supporting effect, by reducing the political cost of maintaining macroeconomic and fiscal discipline. Since PGBS is, ultimately, linked to continued satisfactory macroeconomic management, it can be seen as reinforcing the dialogue between the GOU and the IMF. Meanwhile the commitment to macroeconomic stability has been institutionalised within the BOU and MFPED, and also among parliamentarians and the executive, who do not question the need to maintain macroeconomic stability and fiscal discipline. In this context the overall effects of PGBS funds on the ability of the GOU to maintain fiscal discipline are moderate.

B6.29 The main area where PGBS has contributed to macroeconomic performance is through public expenditure, both positively and negatively. On the positive side it would have been difficult for the GOU to expand basic services and also maintain fiscal discipline without PGBS. The main negative effect is on private sector investment and growth, through the contribution of PGBS to the fiscal deficit, as PGBS has been used to increase public expenditure. Owing to the decision of the BOU to use Treasury Bills as the main instrument of sterilisation, increased aid flows are contributing to increased domestic interest payments, and this is likely to be undermining domestic private sector investment more than if sterilisation had been through selling foreign exchange. However, export growth has been more buoyant as a consequence

of this decision. Meanwhile public expenditures have been more geared towards increasing social service delivery than promoting private sector investment through increasing productivity and reducing the cost of doing business.

Counterfactual

B6.30 Without programme aid in the 1990s, the re-establishment of fiscal discipline would have been much harder; nonetheless it is likely that GOU would have been able to maintain fiscal discipline from the late 1990s onwards without PGBS funding. On the other hand, without the support of the executive and Parliament, and strong institutional commitment and capacity within the BOU and MFPED, combined with structural adjustment reforms in the early 1990s, it is unlikely that, even with programme aid, the reforms would have been successful. The effects of PGBS in reinforcing fiscal discipline would not have been so strong if the equivalent volume of aid had been provided through other modalities; discretionary resources made it easier for the GOU to maintain discipline while applying resources to national priorities and improving the efficiency and sustainability of the balance between different components of public expenditure (Chapter B3). At the same time, many of the adverse (actual or potential) macroeconomic effects of PGBS are not specific to PGBS but apply to aid in general. At the same time, it can be argued that PGBS allowed a more rapid scaling up of aid flows than would have been possible through other aid modalities.

B7. The Effects of PGBS on the Delivery of Public Services

How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?

Introduction

B7.1 This chapter relates to the transition from Level 3 (outputs) to Level 4 (outcomes) of the EEF. The three main causal hypotheses to be tested in this chapter are that General Budget Support has:

- (a) contributed to more and more responsive/pro-poor accountable service delivery (4.7), through increased resources for service delivery (3.1) leading to more resources flowing to service delivery agencies (4.3);
- (b) contributed to more and more responsive/pro-poor accountable service delivery (4.7), by encouraging and empowering the partner government to strengthen pro-poor policies (3.3) and through the formulation of appropriate sector policies, which address market failures (4.4);
- (c) contributed to more and more responsive/pro-poor accountable service delivery (4.7), by appropriate sector policies to address market failures (4.4) influenced by increased operational and allocative efficiency of the public finance management system (3.5/3.6).

Relevant Facts: Rising Quantity of Services, but Quality Concerns

Levels of service delivery and access for the poor

B7.2 The levels of social service delivery have increased substantially over the past decade in Uganda both in terms of availability and in terms of their uptake. This is illustrated in Table B7.1 for priority PEAP services between 2000 and 2004. The number of primary schools and their constituent classrooms and teachers has increased substantially. The same applies to the supply of health workers and health facilities and to the number of safe water facilities available in rural areas.

B7.3 There has been a simultaneous rise in the uptake of services. Figure B7.1 shows how the levels of services have increased in education and health. In 1997 primary enrolment doubled overnight with the introduction of universal primary education (UPE), from 2.5 million to 5.3 million. Outpatient attendance jumped by 40% with the abolition of user fees in 2002. It was the introduction of free services in health and primary education which had the largest impact on the uptake of services, not the increasing supply. However, even after those major policy events the level of uptake continued to rise, indicating a response to the increases in supply of services – by 2004 primary enrolment was 6.8 million and outpatient attendance had increased a further 30%.

Table B7.1: Levels and Coverage of Service Delivery

<i>Primary Education</i>	2000	2001	2002	2003	2004
Teachers on payroll	82,148	101,818	113,232	121,772	124,137
Number of Classrooms	50,370	60,199	69,900	73,104	78,403
Pupil Teacher Ratio	65	58	56	56	54
Pupil Classroom Ratio	106	98	94	94	85
Net Enrolment Rate	86%	87%	85%	87%	89%
Enrolment Growth rate	-	11%	11%	4%	-2%
Primary Healthcare					
Outpatient Visits per Person	0.40	0.43	0.60	0.72	0.79
% DPT3 Coverage	41%	48%	63%	84%	83%
% Approved Posts Filled	33%	40%	42%	66%	68%
% Deliveries in Health Unit	25%	23%	19%	20%	24%
Safe Water					
Rural Water Coverage	50%	54%	55%	58%	60%
Agriculture Extension					
Households visited by Extension Worker	29%				14%
Rural Roads					
% Households Living < 1 km from a road					85%

Source: Ministry of Education, Ministry of Health, National Service Delivery Survey 2004.

B7.4 There is clear evidence that access by the poor has improved in education, health, and water services. Net primary enrolments have remained nearly 90%, which implies that the majority of the poor are in school, although dropout rates are high. There is clear evidence that access by the poor to health services has improved since the abolition of user fees, as found by Deininger and Mpuga (2004b):

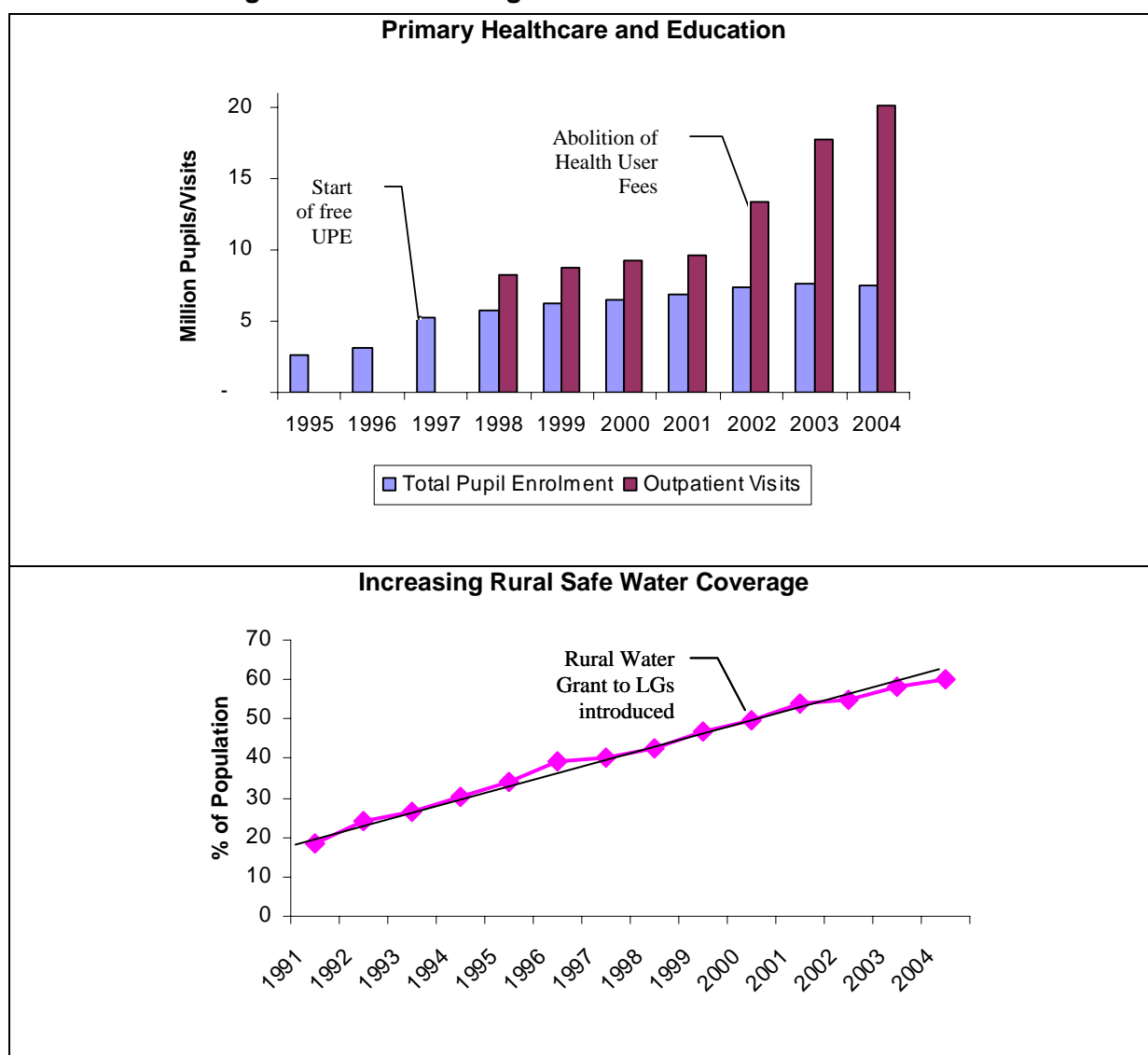
We find that the abolition of user fees significantly improved access to health services especially by the poor whose health spending (at the household level) is significantly lower after the policy change as compared to the situation before.

... the impact of the policy change seems to have been strongly pro-poor: the percentage increase of those who visited a hospital when sick was, with 12 and 14 percentage points, highest for those in the bottom two quintiles, compared to less than 6 percentage points for the top quintile.

B7.5 However, there are some questions over the effectiveness of targeting of investments to the poor, especially in water and sanitation where decisions over the geographical location of water points (MFPED 2002(d), Kanyesigye et al 2004) are often inequitable. Nevertheless, the National Service Delivery Survey does point to a reduction in the average dry-season distance walked to collect water, from 1.5 km in 2000 to 1.1 km in 2004.

B7.6 The scale of increases in service delivery has not been as marked in the productive sectors, although access to roads is also good, with 85% of households reporting that they are within 1 km of a road, and 77% of roads reported to be usable all year round (2004 National Service Delivery Survey). Despite the recruitment of graduate extension workers countrywide between 1998 and 2000 and the introduction of the National Agricultural Advisory Services (NAADS), as part of the Plan for Modernisation of Agriculture (PMA), the picture in the agriculture sector is not so positive. In the National Service Delivery Survey the proportion of households which reported being visited by extension workers in the past year had halved between 2000 and 2004, from 29% to 14%.

Figure B7.1: Increasing Access to Basic Social Services

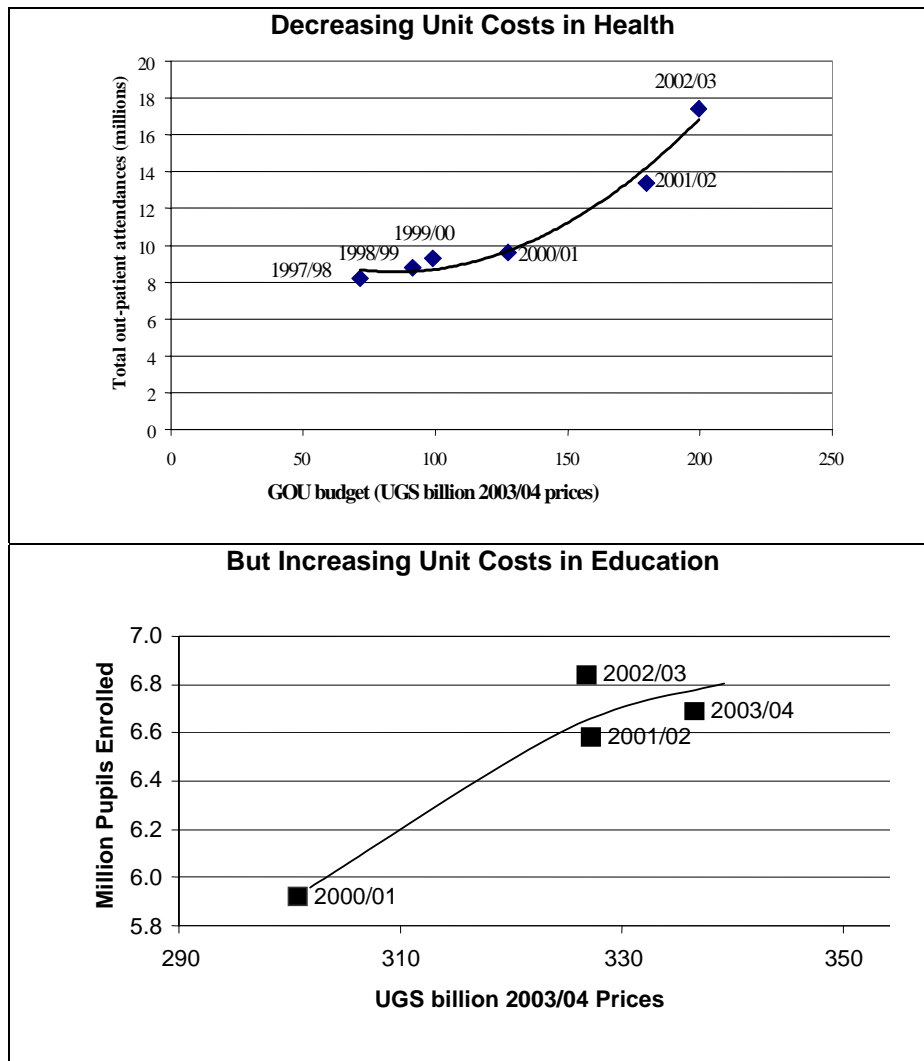


Source: Ministry of Health and MOES Annual Performance reports.

Efficiency and effectiveness of services

B7.7 There is evidence in some sectors that efficiency is improving. For example, in the health sector it is possible to demonstrate that the uptake of services is rising more quickly than budget expenditures, which would imply an increase in efficiency (see Figure B7.2 below). The channelling of government funding to private not-for-profit (PNFP) providers in health was one explicit public expenditure policy, which was aimed at taking advantage of the greater efficiency in that sub-sector, but there is concern that this opportunity is no longer being taken advantage of in full (see Chapter C2). Since the introduction of UPE in 1997, the unit cost of primary education has remained relatively constant until recently; there is evidence that per capita spending is now increasing, but this is likely to reflect efforts to improve quality through increasing the inputs in terms of teachers, textbooks, and classrooms per pupil.

Figure B7.2: Efficiency of Health and Education Services



Source: Ministry of Health, Ministry of Education, Ministry of Finance.

B7.8 However, this is not the case in all sectors. For example, in water and sanitation although the rural water sub-sector may be maintaining efficiency, the efficiency of water services overall is declining. In 2004/05 only 40% of sector funding was allocated to rural areas, despite the fact that 87% of the population live in them. While over 60% of the GOU's own resources (i.e. excluding donor projects) were spent on rural water supply in 2004/05, and the majority of that (88%) is channelled directly to districts, donor projects were focused more on the urban sector, where per capita investment costs are far higher.

B7.9 Small-scale infrastructure delivery through local government systems has proved relatively efficient compared to separate projects. Although there are legitimate concerns about quality, there are also concerns about the appropriateness of government standards for infrastructure, which may be higher than necessary to achieve service results. For example, local governments (LGs), when using their own revenues or discretionary revenues from the Local Development Grant, tend to build lower quality structures than those financed by conditional grants, but at a far lower cost (see Annex 6).

Table B7.2: Very Low Quality in Healthcare and Primary Education

	1999/00	2003/4		2000	2004
Proportion of approved posts that are filled by trained health personnel	33%	68%	Literacy P3	18	38
			Literacy P6	13	30
			Numeracy P3	29	41
Percentage of facilities without any stock-outs of chloroquine, ORS, cotrimoxazole and measles vaccine	29%	60%	Numeracy P6	42	43
			Survival Rate to P5	88	52

Source: Ministry of Health 2004.

Source: Ministry of Education 2004.

B7.10 Most importantly, however, there are concerns about the quality of delivery in the major social sectors of health and education. In primary education the quality of education suffered after the introduction of UPE, when class sizes shot up, and the ratios of pupil to textbooks and classrooms worsened markedly. The abolition of user fees in health also resulted in problems in the supply of drugs, with stock-outs of medicines increasing, and concerns over the effect on the motivation of staff. Poor quality manifests itself in terms of high drop-out rates in primary education, while the lack of impact of increased access to health services on health outcomes points to problems in the quality of services there. There is some evidence which points to gradual improvements in quality being realised in both sectors, such as the increased number of posts filled in health facilities, and slight improvements in literacy and numeracy outcomes. However, there is a long way to go before satisfactory levels of quality are reached.

B7.11 The fact that the grant system is relatively equitable across local governments means that their inputs for service delivery are also fairly evenly spread across the country. However, there are large variations in sector outcomes and outputs across local governments. For example, in 2004 net enrolment rates were as low as 37% in some districts in primary education (Ministry of Education 2004), while outpatient attendance varied from just over 0.4 visits to over 1.4 visits per person (Ministry of Health 2004). There are therefore large variations in efficiency and quality of service delivery across the country. Although this may in part be due to external factors such as the war in the north of Uganda, it also points to large variations in local government institutional capacity to deliver services as well as the need to improve equity of resource allocations further.

B7.12 In most sectors the strategies for improving the quality of service delivery have focused on increasing the supply of inputs. The variation in quality of delivery across local governments emphasises the importance of building strong, accountable service providers, and local governments as managers of those service providers.

Assessment against Evaluation Criteria

Pro-poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General situation:	Level: **	Trend: +	Confidence: **
PGBS influence:	Effect: **	Efficiency: ***	Confidence: **

B7.13 As described in Chapter B3, PGBS has helped to pay for an expansion of the funding for pro-poor service delivery, most visibly through the PAF and SWAp mechanisms. This has resulted in increases in the quantity of services, and consequently also the access to services of poor people, especially in terms of primary education, primary healthcare services and access to safe water. The targeting of some services, such as water and agricultural advisory services, may not be particularly pro-poor, but the poor have undoubtedly benefited.

B7.14 Chapter B3 also showed how, through its flexibility, PGBS has allowed more efficient and effective resource allocation for service delivery. One way this manifests itself is in increased expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending. Funding more teachers and health workers, textbooks and drugs, alongside investments in those sectors, has promoted efficiency as well as effectiveness, although recent trends may be undermining earlier efficiency gains. In addition, the high level of earmarked funding combined with parallel planning mechanisms in local governments makes it difficult for local governments to link their investment and recurrent expenditure decisions effectively.

B7.15 More importantly, these positive statements must be tempered by the fact that the quality of many services remains very low, and that PGBS has not been effective in significantly upgrading the quality of service delivery in health and education in particular. At a sector level the focus of quality improvements has been on increasing the supply of inputs, and not the capacity of delivery institutions.

B7.16 Policy decisions have been central to explaining trends in the uptake, quality and effectiveness of public service delivery. The two major decisions of free UPE and healthcare, which have resulted in greater uptake of services by the poor but also the initial decline in quality, were primarily political decisions (responding to popular concerns that clearly influence democratic elections³¹). The UPE decision preceded PGBS, but the abolition of user fees in health was made outside the bounds of the donor–GOU dialogue in the context of PGBS, and actually was greeted with scepticism by the donor community. In these circumstances the PGBS influence was indirect – it made the policies more feasible by expanding the available public resources, while dialogue and technical assistance has helped strengthen policy implementation.

B7.17 In answering the questions in this chapter, it is difficult to distinguish specific PGBS non-financial inputs from those delivered outside the framework of PGBS (by PGBS donors or by other donors), especially at the sector level. Dialogue and TA/CB linked to full PGBS relates mainly to PFM (especially accounting systems) and to the central ministries of GOU, including the Ministry of Local Government (see below). Given the way that sector plans and sector dialogue are linked to the broader frameworks of the PEAP, MTEF and the PRSC, it is legitimate to take TA and CB implemented in the context of SWApS into account in the context of PGBS.

³¹ See, for example, Stasavage 2003.

B7.18 Policy dialogue and TA, at the sector level, have supported central government to develop more coherent policy frameworks for service delivery and develop clearer strategies. The core functions where central capacity has been strengthened have been in terms of strategic planning, policy formulation, and resource allocations, in the context of sector wide approaches, and this has helped improve the appropriateness of resource allocation. Just as the rapid growth in resources has led to an understandable focus on expansion more than on the efficiency of provision, so the dialogue and conditionality around quality of delivery has tended to focus on planning and delivering an adequate supply of inputs. This has been at the expense of strengthening the systems and incentives for effective delivery, as we describe below.

Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.			
General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: *	Confidence: **

B7.19 The major institutional change in service delivery in the past decade has been the introduction of decentralisation, which provided for devolution of political, fiscal and administrative powers. The 1995 Constitution and 1997 Local Government Act made districts and municipalities responsible for delivering most basic services. Crucially, local governments were given full responsibility for recruitment and staff management, apart from the administration of the payroll itself.

B7.20 Decentralisation began just prior to the introduction of PGBS, but the major increases in funding to local governments which accompanied HIPC debt relief and PGBS were crucial in changing the balance of power between central government and local delivery organisations, and in empowering local governments and their constituent providers to deliver services. The vast majority of PAF programmes are implemented by local governments. The prioritisation of specific local government conditional grants in the PAF (reinforced by notional earmarking) meant that the GOU was able to expand allocations to LG service delivery faster than the rest of the budget. These increases were the single biggest factor in capacitating local governments to deliver services. However, as we discuss in more detail in Chapter C3, capacity development efforts have tended to lag behind the financial responsibilities assigned to local governments, and the potential complementarity between PGBS financial and non-financial inputs has not been fully exploited. This accounts for our overall assessment of the PGBS effect so far in strengthening the *sustainable* capacity of service delivery institutions as weak.

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General situation:	Level: *	Trend: +	Confidence: **
PGBS influence:	Effect: *	Efficiency: *	Confidence: **

B7.21 There have been some improvements to the responsiveness of services to beneficiaries, but their extent is difficult to assess. It has been an ongoing challenge to reconcile the wish to ensure local government compliance with national targets and the aim to ensure sufficient local autonomy to enable responsive delivery. High levels of conditionality and vertical accountability mechanisms associated with local government funding under SWAps give local government little space to alter sector funding allocations, especially in the recurrent budget. However, local

government planning and budgeting processes have become more participatory, and due to the discretionary nature of the Local Development Grant, local governments have significant autonomy in the distribution of sector investments as well as of new services, and therefore have significant scope to be responsive in this respect.

B7.22 Within sectors, there have been numerous initiatives to address client–provider relationships. Actions such as publishing transfers at schools and in the newspapers (which commenced prior to PGBS) have helped reinforce accountability in the delivery relationship, and been extended to other sectors. The health sector is introducing a system of grading health centres and provides league tables of district health performance. The institution of Health and School Management Committees, Water User Authorities (all prior to PGBS), and Farmers' Forums have involved the beneficiaries in delivery. However, the effectiveness of these initiatives has been questionable. This is not because they are poorly conceived ideas, but largely because they have been given inadequate support in implementation. The lack of attention provided to these potentially important allies in enhancing delivery quality and accountability is reflected in their almost entire absence from sector dialogue and reporting. Meanwhile the policy decisions to abolish user fees, despite their positive effects on equity and access, weakened the relationship between users and providers and the incentives for provider staff to respond to beneficiaries.

Principal Causality Chains

B7.23 As regards the three causality chains set out in ¶B7.1:

- (a) PGBS has certainly contributed to more resources for service delivery (3.1), and to an increased flow of resources to service delivery agencies (4.3). (Both these points were established in Chapter B3.) These services have benefited the poor, but there is less evidence that they have become significantly more responsive and accountable to beneficiaries, although this is a topic that increasingly features in general and sector dialogue.
- (b) The GOU's stated policy objectives (PEAP and sector strategies) embrace the objective of pro-poor accountable service delivery (4.7); here there is coincidence rather than causality between the GOU and donor objectives. PGBS finance has empowered the GOU to realise these policies to an increased extent (3.3), but, so far, service expansion has predominated over attention to quality and changes in accountability relationships. Nevertheless, the planning and budgeting system has strengthened processes of policy review (4.4), and PGBS has helped to reinforce this system (see Chapters B4 and B5).
- (c) Chapter B3 has already demonstrated the effectiveness of the additional link in the third chain (3.5/3.6 – increased operational and allocative efficiency of the public finance management system).

B7.24 The most significant institutional change has been the shift of power and resources to the district level (dealt with at length in Annex 6), in which PGBS finance was crucial. The degree to which local government programmes have been pro-poor largely depends on sector policy; the policy decisions which have had the greatest impact on delivery of services to the poor have come from outside the framework for policy dialogue, conditionality, TA and CB. There is potential for much more attention to service delivery and accountability relationships in future, both in relations between central and local agencies of government and in the relations between front-line service delivery agencies and their various stakeholders.

Counterfactual

B7.25 Without the initial development of the PEAP and sector strategies prior to the introduction of all types of PGBS, it is unlikely that the increase in levels of service delivery would have occurred, because the framework for expanding delivery would have not been in place. Conversely (for reasons already discussed in Chapter B3) the increase in service delivery that did take place would not plausibly have been so dramatic if it had relied primarily on project or sector modalities alone. At the same time there has been complementarity between modalities, particularly in the area of TA/CB, although the lack of coherent TA/CB strategies has so far limited the potential gains from focusing on the capacitation of government systems.

B8. The Effects of Partnership GBS on Poverty Reduction

How far has PGBS strengthened government impact on poverty?

Introduction

B8.1 This chapter relates to the transition from Level 4 (outcomes) to Level 5 (impacts) of the EEF. The four main causal hypotheses to be tested in this chapter are that PGBS has:

- (a) led to the empowerment and social inclusion of poor people (5.3), through more, and more responsive, service delivery (4.7);
- (b) reduced income poverty (5.1), through increasing the scope for a more conducive growth-enhancing environment (4.6);
- (c) reduced non-income poverty (5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of strengthened governmental incentives (3.7) and partner governments empowered to strengthen systems (3.2);
- (d) reduced non-income poverty (5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of enhanced democratic accountability (3.8) and partner governments empowered to strengthen systems (3.2).

B8.2 Information on poverty outcomes is necessary but not sufficient for testing these hypotheses. At the level of impacts, there are many influences on poverty besides government action, and there is the further challenge of assessing to what extent government action has been influenced by PGBS. Before turning to these challenges of analysis and attribution we provide a brief overview of what is known about poverty outcomes in Uganda over the evaluation period.

Relevant Facts

B8.3 Partly because poverty has been a central political concern at least since the first PEAP was conceived, Uganda has a significant range of poverty data. The principal sources on trends in household poverty are the national household surveys, but these have been complemented by a range of other quantitative and qualitative surveys, including the Participatory Poverty Assessments (PPAs) under the UPPAP programme,³² and more specific surveys related to service delivery and aspects of empowerment – public expenditure tracking surveys (PETS), National Service Delivery Survey, National Integrity Survey, etc.³³ The second national household survey, with data for 2002/03, created considerable interest, and controversy, because it found a reversal in poverty reduction since the first national household survey (1999/2000 data). The subsequent debate is continuing, and focuses on issues about the robustness of the latest data (despite Uganda's poverty data having been praised in the past) as well as possible explanations for the trends they suggest. The most recent comprehensive review of these trends is the World Bank's Poverty Assessment.³⁴ The 2004 PEAP also explicitly addresses the issues of data and trends. The WB Poverty Assessment casts doubt on the validity of the results from the first national household survey (arguing, notably, that there are

³² Reports are available at <http://www.finance.go.ug/Uppap%20redesigns/reports.htm>.

³³ See MOES 2004 for the public expenditure tracking survey on UPE; UBOS 2004; Inspectorate of Government 2003.

³⁴ We referred to the June 2005 draft.

inconsistencies between data on expenditure and assets). Although other analysts dispute this interpretation, there is less doubt about a trend towards growing inequality, which detracts from the poverty-reduction effects of economic growth.

B8.4 We are not in a position to adjudicate this debate, but it is worth noting: (a) that the faltering in poverty reduction is certainly a cause for concern; (b) the debate over statistics reinforces the point (which we take up in Chapter B9) that reliable outcome/impact data are infrequently available at the best of times; (c) that the justification, or otherwise, of PGBS does not turn on these data, since, even in theory, the causal connections from public expenditures to income poverty over such a short period are tenuous; but (d) to the extent that the GOU and donors have claimed credit for favourable poverty trends in the past, they should not be surprised at criticism when the tide of good fortune turns.

B8.5 Table B8.1 summarises the snapshots of poverty from successive PEAPs, while Table B8.2 summarises headline data on poverty. The proportion of Ugandans below the national poverty line fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003. There are significant regional variations, with poverty remaining exceptionally high in the conflict-affected north.

Table B8.1: Perspectives on Poverty in Successive PEAPs

	PEAP1 (1997)	PEAP2 (2000)	PEAP3 (2004)
State of poverty	<ul style="list-style-type: none"> ➤ 44.0% of population below poverty line (data source: monitoring survey). ➤ Poverty on declining trend (income poverty down from 56% in 1992). ➤ Strong momentum for continued decline; farmers (especially those growing coffee) benefiting from liberalisation. 	<ul style="list-style-type: none"> ➤ 35.2% of population below poverty line (data source: first National Household Survey). ➤ Continued strong momentum for poverty reduction. ➤ Also based on updated qualitative information on poverty from the Participatory Poverty Assessment. 	<ul style="list-style-type: none"> ➤ 38.8% of population below poverty line (data source: second National Household Survey). ➤ Slight increase in income poverty. ➤ Other measures of welfare – value of assets, ownership of specific items, access to services continue to show large improvements.
Inequality (Gini)	<ul style="list-style-type: none"> ➤ 0.347: on a declining trend compared to 0.36 recorded in 1992. 	<ul style="list-style-type: none"> ➤ 0.395: worsening inequality diluting the benefits of growth. 	<ul style="list-style-type: none"> ➤ 0.428: continued worsening of inequality leading to increased poverty.
Economic growth	<ul style="list-style-type: none"> ➤ Steady fast growth averaging 7.6% over 1992/93–1997/98 and about 10% in 1994/95–1995/96. 	<ul style="list-style-type: none"> ➤ Continuing fast growth averaging 6.5% over 1998/99–1999/2000. 	<ul style="list-style-type: none"> ➤ Declining tempo of growth: 5.6% over 1999/2000–2002/03. Growth in 2002/03 alone about 5%.

Source: adapted from WB Poverty Assessment Report (draft June 2005), Table 5.1.

Table B8.2: Headline Poverty Data 1992–2002/03

% below poverty line	1992	1993/94	1994/95	1996	1997/98	1999/2000	2002/03
National	55.7	51.2	50.2	49.1	44.4	33.8	37.7
<i>Rural</i>	59.7	55.6	54.3	53.7	48.7	37.4	41.1
<i>Urban</i>	27.8	21.0	21.5	19.8	16.7	9.6	12.2
by regions							
<i>Central</i>	46				28	19.7	22.3
<i>Western</i>	53				43	26.2	31.4
<i>Eastern</i>	59				54	35.0	46.0
<i>Northern</i>	72				60	63.7	63.6
Gini coefficient							
National	.36	.35	.36	.37	.35	.39	.43

Source: PEAP3, drawing on papers by Appleton and Appleton and Ssewanyana.

Note: Data for 1999/2000 and 2002/03 exclude the most conflict-affected districts of the north.

B8.6 Concerning service delivery, previous chapters have already documented the expansion of basic public services for which PGBS has been an important support. Box B8.1 summarises the draft Poverty Assessment's conclusions on the extent to which the incidence of these services has been pro-poor. The conclusions are based on imputed benefits: household survey reports on the use of services are linked to data on costs of services to estimate incidence. The authors warn that this approach does not capture issues of quality. There are known to have been significant quality declines in primary education and, to a lesser extent, health services. These affect the value, if not the share, of benefits received by the poor (and other users).

Box B8.1: Poverty Assessment Conclusions on Benefit Incidence of Public Services

Inequalities in the distribution of public expenditures for health and primary education, particularly along income/welfare rankings and gender, have been greatly reduced after the abolition of user charges and the supporting policy environment in these sectors. However, other constraints such as distance and transportation costs and poor quality of services still hamper the effective use of these services by the poor, especially in the health sector. The absence of similar public interventions at the secondary level of education will need to be addressed in order to achieve equal distribution of these benefits, so as to promote equitable development and poverty eradication. Expenditures on increasing access to safe water have also been progressive, but large inequities remain in access to protected water sources. Future efforts need to target rural areas. Large income inequalities remain in access to agricultural extension and advisory services, a problem given that the poorest are agricultural households. The tax system has not been very progressive as implemented. The government's new land policy, while potentially a major improvement, as implemented does not adequately protect vulnerable groups.

Overall, government actions to implement the successive PEAPs have been in a pro-poor direction, but much more remains to be done. Limited resources are one obstacle, especially in the education sector. However, other obstacles include the effect that sectoral policies and practices have on the quantity and quality of services received by the poor. These are the challenges for the next stage of poverty reduction.

Source: WB draft Poverty Assessment (June 2005), ¶6.43–44.

B8.7 The empowerment dimension of poverty reduction is harder to measure, both conceptually and practically. However, the Participatory Poverty Assessments (PPAs) in particular have provided important insights into how this dimension is perceived by the poor themselves. Most notably, conflict-related insecurity is the major source of disempowerment (the war in the north and the effects of cattle raiding from Karamoja are the principal instances). There are significant gender dimensions (women are disempowered by unequal gender relations, and the benefits of marketing agricultural products tend to be disproportionately captured by men). The major "empowering" reform – at least in its intent – has been decentralisation, with its aim of giving more voice to local communities across the country, and making public service providers more responsive to local service users.

Assessment against Evaluation Criteria

Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(a) the use of health, education and other basic services by poor groups.

General situation:	Level: **	Trend: +	Confidence: ***
PGBS influence:	Effect: **	Efficiency: **	Confidence: ***

B8.8 Previous chapters have shown that PGBS has made a major, and efficient, financial contribution to the expansion of basic public services. Survey evidence indicates that the access of the poor to these services has improved and inequalities in the distribution of public expenditures have been reduced. The dialogue and H&A efforts linked to PGBS have also served to reinforce the strategy of expanding pro-poor service delivery. However, the value of services extended to the poor is reduced by their low quality.

Income Poverty

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.

General situation:	Level: **	Trend: =	Confidence: **
PGBS influence:	Effect: *	Efficiency: **	Confidence: **

B8.9 Assessing the impact of PGBS on income poverty is more difficult. As we have noted, there is some controversy over precise trends in income poverty. The draft Poverty Assessment's conclusion on household level determinants of poverty and vulnerability is:

Over the last decade, Uganda has made great strides in improving household welfare. The key elements seem to be: (a) a better economic climate for households engaged primarily in agriculture; (b) provision of infrastructure which facilitated the development of the informal non-farm sector; (c) formal sector job growth; and (d) major improvements in access to publicly financed and provided services.

B8.10 Programme aid facilitated macroeconomic stabilisation and the liberalisation reforms of the early 1990s, which boosted income growth. PGBS began with this policy framework already in place, but through flow-of-funds effects, PGBS has been supportive of a generally positive macroeconomic environment. Beyond this, the impact on incomes has been limited (although it has supported increased public expenditures in rural areas). However, its non-financial inputs – in particular its role in, and contribution to, highlighting the poverty implications of economic policy – have been significant in fostering policy reviews in which PEAP3 has recognised the need for future poverty reduction strategy to pay more explicit attention to income generation and pro-poor growth.

Empowerment

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision-making, or improvements in the administration of justice.

General situation:	Level: *	Trend: =	Confidence: **
PGBS influence:	Effect:*	Efficiency: **	Confidence: **

B8.11 PGBS has supported participatory approaches to poverty analysis, as well as various initiatives to give service beneficiaries more control over the services they receive. PGBS has provided a major boost to decentralisation; this has certainly extended the political voice and participation of Uganda's citizens, although it should not be assumed that this is automatically pro-poor in its effects. There has been increasing recognition of the importance of justice and security as components of welfare, and this is reflected in PEAP revisions. Support to the SWAp for justice, law and order (JLO), including the incorporation of part of its expenditures in the PAF, has also reflected this concern.

Principal Causality Chains

B8.12 With regard to the causality chains posited in ¶B8.1:

- As noted, empowerment is the most difficult dimension of poverty on which to assess impact; however, PGBS has certainly helped to make more services more available to the poor, and it played a strong role in realising the strategy of decentralisation.
- Effects of PGBS on a growth-enhancing environment, though weaker than its effects on service delivery, have been positive. However, the state of knowledge about poverty trends and their causes does not permit a more precise conclusion concerning the impact of PGBS on income poverty.
- The strongest effects of PGBS thus far have been through service delivery effects on non-income poverty reduction. Thus far they have occurred more through the effects of service expansion than through any transformation of service delivery relationships.

Counterfactual

B8.13 With less aid overall, the pace of service delivery expansion and reduction in non-income poverty would have been less. As earlier chapters have suggested, PGBS has been a relatively efficient modality for delivering aid for these purposes. Efforts to strengthen economic policy and to support various aspects of empowerment can be, and have been, delivered through sector and project support. However, PGBS has expanded the scope of relevant GOU–donor dialogue about a range of cross-sectoral issues in a way that strongly complements more focused forms of aid, and for which they do not offer a direct substitute.

B9. The Sustainability of Partnership GBS

Is the PGBS process itself sustainable?

Introduction

B9.1 In addressing sustainability, this chapter relates to the specified feedback loops of the enhanced evaluation framework (EEF) – see Annex 1A, Figure 1A.1. The EEF draws attention to feedback between all the levels of its logical framework, and the monitoring and evaluation of PGBS needs to be seen in the wider context of M&E systems for the poverty reduction strategy and for public policy as a whole.

B9.2 Sustainability of the PGBS process is important in the context of the long-term objectives that are set for PGBS. The time scale for plausible institutional and policy effects on poverty reduction is a long one, as is the horizon for achievement of the MDGs. PGBS needs to be durable, but also adaptable, if it is to perform effectively over the long periods that its intentions require.

Relevant Facts

B9.3 The mechanisms for managing PGBS and for monitoring it, in the context of overall monitoring of the national poverty reduction strategy, are continuing to evolve in response to experience, and are strongly rooted in national systems for planning and budgeting. Further convergence is likely as the PRSC performance matrix is more directly drawn from the PEAP.

B9.4 The link between PGBS and the evolution of the GOU's planning and budget system has been highlighted throughout this report, and has had direct consequences for the systems of monitoring and evaluation on which PGBS draws. Booth and Nsabagasani (2005) describe the relationship as follows:

The comparatively strong domestic political thrust behind the first PEAP and the way budget and public-expenditure reforms were made to link up with poverty-reduction objectives through the MTEF created a favourable environment. In this context Uganda scored a series of firsts with innovative data collection methods and arrangements that, in a conducive political environment, enabled their results to influence policy. These innovations did not alter the political basis of the state, and the potential for the budget/MTEF process to generate incentives to data use was only realised in limited ways. Haphazard but real shifts towards results- and evidence-based policy making have nonetheless taken place over a period of years. Improvements in aid alignment have been made possible as a consequence.

The second PEAP revision has produced some important improvements in both policy thinking and institutional embeddedness, but country ownership at the political level is less clear than it was.³⁵

B9.5 The sequence (with the PEAP preceding PRSPs) meant that Uganda's PRSP reporting has been adapted from pre-existing documents – the annual Background to the Budget and biennial Poverty Status Reports. The Poverty Status Reports are prepared by a specialist unit established in MFPED in 1998 as the Poverty Monitoring Unit, and later given a broader

³⁵ This chapter draws extensively on Booth and Nsabagasani (2005), who provide an excellent analysis of the issues it addresses.

mandate reflected in the current title of Poverty Monitoring and Analysis Unit (PMAU). Over time Poverty Status Reports have paid more attention not only to poverty outcomes but also to the implementation of the policy actions included in the PEAP. This trend has been taken a stage further in PEAP3, with the inclusion of a fuller policy matrix. The main survey organisation is the Uganda Bureau of Statistics (UBOS), which has a good reputation, while econometric analysis of surveys is largely contracted to the Economic Policy Research Centre (EPRC). There has been considerable TA to data and analysis functions (e.g. from DFID to the PMAU, while EPRC has been funded through World Bank credits and has worked closely with World Bank analysts.)

B9.6 The mutually reinforcing combination of survey and analytical capacity with a demand for evidence on which to base policy has led to significant innovation:

This context helps to account for the long run of 'firsts' that has been chalked up by Uganda in the collection and use of poverty data. This includes most notably the reasonably consistent series of household expenditure surveys undertaken by the Uganda Bureau of Statistics (UBOS) and the Uganda Participatory Poverty Assessment Process (UPPAP), but also Public Expenditure Tracking Surveys (PETS), the involvement of NGOs in PAF monitoring in districts, etc. The political alliance that first projected the PEAP and then linked it to the budget not only instituted these activities. For a period, it provided them with both channels of influence and some protection against pressures to tone down critical findings or policy implications. (*ibid.*)

The National Integrity Survey (Inspectorate of Government 2003) and National Service Delivery Survey (UBOS 2004) could be added to this list of relevant instruments.

B9.7 Recently there have been two significant innovations which will influence future M&E. In line with the shift from MFPED to the Office of the Prime Minister (OPM) of responsibility for coordinating the PRSC process, OPM has taken responsibility for overall coordination of monitoring, with a secretariat to coordinate the National Integrated Monitoring and Evaluation System (NIMES). Secondly, the National Planning Authority (NPA), envisaged in the 1995 Constitution, has now been established. Although formally under the Minister of Finance, the new Authority has its own Board, Executive Director and secretariat, and reports directly to Parliament. It has an extremely broad mandate to produce comprehensive and integrated development plans for the country, including both long-term and medium-term plans, and guidance and support to the national and local bodies responsible for the decentralised planning process.

Assessment against Evaluation Criteria

Shared Learning between Government and Donors

The extent to which PGBS allows a shared learning process between Government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities among different forms of aid).

Level: **	Trend: +	Confidence: ***
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B9.8 The systems and processes that are most specific to PGBS are those that relate directly to the PRSC, notably the procedures for setting and reviewing actions and targets to be included in its policy matrix. However, these take place in the context of wider systems for general and sector policy review that are unusually well articulated with GOU's planning and budgeting system. There is striking scope for direct involvement by IPs in the annual cycle of expenditure review and budget formulation, as well as a great deal of dialogue (much of it quite informal) around PEAP preparation and review. GOU has demonstrated considerable capacity for evidence-based review and adjustment of policies and resource allocations, and has made

effective use of support from, and dialogue with, IPs in doing so. The evolution of the analysis and policies incorporated in successive PEAPs is a reflection of this. However, IPs' ability to learn and build on experience is limited by their short institutional memory, relative to that of government.

B9.9 Although the context for shared GOU/IP learning is an unusually strong one, we have assessed the influence of PGBS as moderate rather than strong because: it (appropriately) adapted to the existing and emerging systems, but did not create them; the ability to learn and adjust through the most characteristically PGBS mechanism – the annual PRSC cycle – is somewhat constrained by the frenetic intensity of an unwieldy annual exercise;³⁶ and, notwithstanding the Partnership Principles, there has been little explicit attention by either the GOU or IPs to the best ways of ensuring complementarities among different forms of aid (see our recommendations in Part D).

Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).

Level: **

Trend: +

Confidence: **

B9.10 Feedback processes (budget and expenditure reporting, poverty monitoring, regular and ad hoc institutional reviews, etc.) do in principle cover all three streams, but policy and institutional review, not surprisingly, is less developed than financial monitoring. A more serious weakness, however, is the failure to strike an appropriate balance in monitoring all stages in chains of causality. Once again, Booth and Nsabagasani provide an acute analysis:

As in other countries, the monitoring of poverty-impact trends and easily-measured poverty-relevant outcomes has been more systematic than the attention to intermediate actions, processes and outputs. In part, this reflects the weakness of the routine data that might be used for this purpose; but it was also because PEAP indicators and targets were only clearly specified at the outcome level. This left a large gap between donor-instigated and country-based review mechanisms which the [Poverty Monitoring System (PMS)] and its annual reporting were not quite able to bridge.

However, there is another thing that needs to be done to get a better relationship between supply and demand. That is to shift the focus of the PMS, and the activities of both PMAU and the NIMES Secretariat, towards a more systematic monitoring of the intermediate levels of the results chain between inputs and final policy objectives. This has been tried, notably in the approach taken to writing Poverty Status Reports and PRSP Annual Progress Reports (APRs), in recognition that outcomes and impacts tend to change too slowly to be really useful for year-on-year learning and strengthening results' accountability. But it has been hard, because only the outcome level of the PEAP monitoring matrix has had clearly specified indicators and targets. This is now changing, as the 2004 PEAP reflects gradually maturing strategies in the sectors, and – a crucial innovation – has a Policy Matrix, setting out agreed policy actions, as well as a Results and Monitoring Matrix.

It is, rather regrettably, a feature of the set-up of PRSP monitoring in many countries that it focuses heavily on the outcome and impact levels of change, where changes are slow-moving and determined in complex ways. There are deep reasons for this tendency that we cannot go into here, but it reflects among other things a profound misunderstanding of what an outcome-oriented approach to policy is.

³⁶ But see Miovic 2004 for the case for maintaining the PRSC as an annual instrument. The learning potential from it should increase now that (since 2005) the PRSC task manager is based in the country.

The promotion of outcome orientation in PRS processes has tended to lead to the use of what could be considered truncated Logical Frameworks, in which only the outcome/impact level is represented. What it ought to mean, on the other hand, is moving as fast as reasonably possible towards policy designs that, in effect, fill in all the cells of a complete logframe.

Without an ability to track progress in increasing or altering the composition of sector outputs and intermediate outcomes, a PMS has little chance of detecting whether or not the final goals of the strategy are likely to be achieved. Yet the tracking of intermediate indicators relies to a very important degree on routine data systems – administrative and financial reporting, and Management Information Systems.

B9.11 In short, evidence-based policy making depends on gathering the right kinds of evidence, and outcome evidence by itself is not enough. This has implications for the way policy matrices are viewed. It should not be automatically assumed that an extensive policy matrix is inappropriate per se, since government is attempting many things in many different ways and needs commensurate management information. However, an extensive set of indicators may become dysfunctional for various reasons: if too many of them are made into conditions for funds release; if it reinforces a centralising tendency with donors attempting to micromanage government actions (and central government agencies micromanaging other government agencies);³⁷ or if the costs and benefits of data collection and use are out of kilter. The bias towards focusing too narrowly on outcomes has a counterpart in the way the dialogue has been conducted – the tendency, on which we have already commented, for "headline issues" to distract attention from more detailed analytical work that could strengthen the practical links between evidence and policy.

B9.12 Finally, some comments on the budget process which is central to results-based policy. First, as already noted, the rigidities of the PAF have a downside in policy review, since guaranteed finance for PAF budget lines and the corresponding inability of non-PAF budget lines to attract funding, however good their case, undermines the contestability of the budget and the ability of the system to adjust to results observed. Second, the integrity of the budget process in which recurrent and investment budgets are considered together, is crucial. The quality of this process would be severely damaged if responsibility for the allocation of investment budgets were allowed to migrate from MFPED to the new National Planning Authority.

Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.		
Level: **	Trend: +	Confidence: ***

B9.13 Different stakeholders require different types of feedback for different purposes. The sustainability of PGBS depends not merely on whether it is effective but on whether, if it is effective, this continues to be recognised by the relevant decision makers and, if it is not (adequately) effective, there are working feedback mechanisms that promote learning and adaptation. The latter point (monitoring and adjustment) has been addressed under the previous evaluation criterion. Here, therefore, we consider the longer-term requirements for the sustainability of PGBS.

³⁷ From a practical point of view, therefore, the nesting of overall and sector matrices is entirely appropriate; but it should not become a cascade of conditionality.

B9.14 Systems for annual feedback that allows the release of successive tranches of PGBS are working. There is room for more concern about the long-term sustainability of the PGBS process. This stems from several observations made already: the erosion of the three-way alliance (President–MFPED–IPs) that gave the poverty reduction enterprise its initial strength; the related growth of political concerns among several donors that make it harder for them to justify aid to GOU (and budget support in particular) to their home constituencies; and, as highlighted in Chapter B8, the good fortune involved in the timing of PGBS's introduction when poverty indicators were anyway heading in the right direction. To this may be added the signs of increased GOU concern about aid dependency (a factor which almost certainly has some bearing on GOU desires to constrain the deficit, and hence the amount of aid absorbed). Altogether, the feedback systems that have been adequate so far are likely to face tougher challenges in future.

Principal Causality Chains

B9.15 Feedback loops exist and are effective in many ways. IPs use and support GOU feedback systems to a substantial and increasing degree. The principal weaknesses in feedback systems are: (a) a tendency to focus too narrowly on the outcome level, with insufficient specification and monitoring of intermediate links in results chains; (b) a tendency to focus more on feedback related to predominantly annual disbursement decisions than on the types of feedback required for the long-term sustainability of PGBS. The system has shown an ability to adapt and evolve which will continue to be required.

Counterfactual

B9.16 Our judgement is that PGBS has had a significant positive effect on the feedback and analysis systems surrounding Uganda's poverty reduction strategy. Importantly, it has helped to stimulate the demand for relevant monitoring, review and analysis, complementing TA support to the development of statistical and analytical capacity. Its effects have complemented sectoral and project approaches. It is unlikely that the same degree of holistic analysis of issues linking public policy to poverty reduction would have occurred if aid had been delivered only through sector or project approaches.

PART C: CROSS-CUTTING ISSUES

C1. Cross-Cutting Policy Issues

Introduction

C1.1 Part C builds on Part B by addressing a series of cross-cutting issues (CCIs). The study Terms of Reference required specific reference to four cross-cutting dimensions of public policy: gender, environment, HIV/AIDS, and democracy and human rights. The first three of these are discussed in the present chapter; democracy and human rights are incorporated in the later chapter on political governance. Four subsequent chapters deal with additional CCIs that emerged during the study as critical issues intrinsic to PGBS itself: the balance between public and private sectors (Chapter C2); government capacity and capacity building (Chapter C3); the quality of partnership (Chapter C4) and political governance issues, including corruption (Chapter C5).

C1.2 Our aim in the present chapter is not to analyse the policy-related CCIs in detail, but, more narrowly, to assess how they have featured in relation to PGBS.

Policy-related CCIs

Gender

C1.3 The gender dimensions of poverty, rooted in unequal social relations, and in differential access to land, other assets and services, are clear from the Participatory Poverty Assessments and much other work on poverty in Uganda. The GOU has an explicit gender strategy – the National Gender Policy, formulated in 1997 (at the same time as the first PEAP), which is oriented towards the mainstreaming of a gender perspective in all aspects of planning, resource allocation and implementation. Many donors are particularly concerned with the reinforcement of gender priorities; and there is an active Donor Coordination Group on Gender.

C1.4 Canagarajah (2005) provides a succinct overview of the interplay between gender issues and the formulation and implementation of public policy in Uganda. He concludes:

Uganda has been exceptionally pro-active in addressing many important gender issues, through affirmative action in the political sphere, through the abolition of user fees in health care and the introduction of UPE, through impressive work to reduce HIV prevalence rates, and through its determination to focus on gender issues in the economic policy arena and in legal reform. In the budget as well as in the PEAP revision and the PRSC process, the Ugandan authorities have used the existing administrative framework rather than creating additional structures to integrate gender issues into development.

C1.5 Although gender issues are addressed and mainstreamed more systematically in Uganda than in many other countries, including in the PGBS dialogue, there is no room for complacency. The stocktaking prepared as part of the preparation of PEAP3 concluded: *there is a very poor coverage of gender issues within the PEAP and at sectoral plan level, even using the most basic assessment (MGLSD and MFPED 2003).*

C1.6 From the perspective of this evaluation it is worth noting (a) that women have been particular beneficiaries from a number of the initiatives most clearly supported by PGBS (e.g. UPE, expansion of free health care); (b) that the PEAP dialogue has embraced gender issues – notably in the establishment of MFPED-led task forces on gender inputs for the PEAP and on Maternal and Child Health, and has fostered extensive gender research and analysis, as well as the promotion of a gender perspective in budgeting. PGBS has thus helped to reinforce an holistic approach to gender issues that has practical importance beyond the inclusion of a significant number of gender-related conditions in the PRSC policy matrices.

HIV/AIDS³⁸

C1.7 Uganda was one of the first countries, with a strong political lead, to launch a very public, broad-based anti-HIV/AIDS strategy, as a result of which sero-prevalence³⁹ fell sharply (from 18% in the early 1990s to 6% in 2002). This decrease has been primarily attributed to the government's early and consolidated response to the epidemic and commitment in promoting prevention around the ABC (Abstain, Be faithful, use Condoms) strategy. However, during the past five years, the prevalence rate has stagnated between 6% and 7%, and the 2005 sero-survey reported the national prevalence rate at 7.1%. The effects – demographic, social, economic and in loss of human capital – continue to be extremely serious. For example, it is estimated that the agriculture sector in Uganda will lose approximately 14% of its labour force to AIDS between 1985 and 2020.

C1.8 The HIV/AIDS strategy was only partly mainstreamed in PEAP1 and PEAP2. In 2003 the National Strategic Framework (NSF) was revised. The revised NSF aims to mitigate all recognised factors of susceptibility to HIV infection, as well as minimising the burden of the disease at individual, community, and national level. As such, government policy shifted towards a more holistic approach to the epidemic: "ABC Plus". This new approach integrates a number of strategies beyond advocacy for behavioural change. It includes a greater emphasis on treatment and care. To date, with a policy of universal access to anti-retroviral drugs (ARV), 67,369 patients out of 189,000 estimated to be in need of ARV treatment countrywide have been provided with these drugs. The provision of ARV drugs absorbs a substantial proportion of AIDS funding, and prevention and treatment aspects of the strategy are not well integrated.

C1.9 NSF concerns have not been fully translated into funding priorities. While the PEAP points to HIV/AIDS as a cross-cutting priority to be mainstreamed across all sectors of the economy, it falls short of outlining how this process is to be put in place, budgeted for, and monitored. By implication, AIDS is peripherally addressed in the Medium Term Expenditure Framework (MTEF), and rarely features in other sectors' Budget Framework Papers (BFPs). HIV/AIDS budgetary allocations as a percentage of GOU total expenditure during FY2003/04 and FY2004/05 were 2.59% and 3.19% respectively. Low on-budget funding is partly explained by reliance on special funds,⁴⁰ particularly for the costs of importing drugs.

³⁸ This section draws on the draft Poverty Status Report for 2006 (Poverty Monitoring and Analysis Unit, forthcoming), which is the proximate source of the data cited.

³⁹ Note that trends in sero-prevalence are somewhat ambiguous, since they reflect the combined effects of mortality and new infections.

⁴⁰ The Global Fund for AIDS, Tuberculosis and Malaria (GFATM) and President Bush's Emergency Plan For AIDS Relief (PEPFAR). In 2005/06 the global funds were added to the health sector ceiling, increasing the HIV/AIDS budgetary allocation as a percentage of GOU total expenditure.

C1.10 To the extent that HIV/AIDS is treated as a health issue, it is incorporated in the one-line "nested" condition for satisfactory review of the Health Sector Strategic Plan (HSSP) but HIV/AIDS has not featured explicitly in PRSC conditions. Otherwise, the main interaction between the PGBS approach and HIV/AIDS issues is the controversy over whether resources potentially available from such funds should be exempt from government's macro and sector ceilings. GOU has taken a consistent position that they should not, and this is reflected in the Partnership Principles (reproduced in Annex 3D).

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.

We return to the interaction between different funding modalities in Chapter C4 below.

Environment

C1.11 Many environmental issues are critical for poverty reduction and sustainability. An Environment Action Plan pre-dates the PEAP. The institutional structure of the National Environmental Management Agency (NEMA) and local environment bodies are in place but lack capacity. An Environmental and Natural Resources Sector Working Group was established in 2001 to prepare and harmonise sector plans and budgets. The PRSC has been used more actively to support environmental issues than for either HIV/AIDS or gender. Successive PRSCs have included actions that focus on strengthening institutional structures (chiefly NEMA), designing conservation and protection strategies, and training (especially at the local government level). World Bank monitoring of how the environment features in poverty reduction strategies and PRSCs cites Uganda for "good practice" in:

... inclusion of environmental specialist in PRSC team; progressive tendency for team to accept environment as part of operation; donor support of [environment and natural resources] and persistence in pushing PRSC team; existing investment environmental management project provides parallel support to PRSC initiatives; inclusion of key environment indicators in several sectors; matrix increasing [environment and natural resources] with sequential operations. (Bojö et al 2004, Table 10)

C1.12 The PRSC stocktaking offers the following assessment:

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. (Miovic 2004)

Summary

C1.13 The structure of dialogue has been reinforced by PGBS, which provides opportunities to mainstream CCIs in sector and budget discussions. The PRSC has been used more to support environmental policy than for explicit gender or HIV/AIDS initiatives. For HIV/AIDS and environment there are strong elements of project support. For environment in particular, the PRSC has been used as a complementary mechanism to promote relevant reforms. The interplay between aid modalities is further discussed in Chapter C4. However, it is evident that the degree of political backing is the major factor behind whether effective progress is made in tackling policy CCIs, which the environment sector, in particular, has not enjoyed.

C2. Public and Private Sector Issues

Introduction

C2.1 A serious criticism levelled against PGBS in Uganda (and elsewhere) is that its focus on the expansion of public services is to the detriment of private sector development and growth. There are several related issues here: (a) has PGBS led to a bias towards public sector action and away from an appropriate focus on private sector development? (b) has this had directly adverse consequences for the private sector and growth? and (c) to the extent that there has been such a bias, is this a necessary consequence of the PGBS approach or something that could be corrected?

C2.2 Earlier chapters have already discussed many aspects of this. We have shown that, in practice, PGBS funds have been predominantly used to support the expansion of basic social services (Chapter B3). There are signs that some macroeconomic effects have been to the relative disadvantage of the private sector (notably the higher domestic interest rates resulting from sterilisation) although this is in the context of likely higher growth and domestic demand as a result of the aid inflows (Chapter B6); moreover, these effects are essentially due to the influx of aid, not specific to the PGBS form that it took. A further observation is that there have been opportunities for non-government service providers. Non-profit providers have been especially important in the health sector (although there have been recent protests that GOU decisions have discriminated against them).⁴¹

C2.3 We first review the (changing) balance of emphasis in Uganda's poverty strategy and the associated PGBS dialogue. We then briefly review some of the practical constraints faced by the private sector in Uganda, and the constraints the poor face in participating in economic growth in Uganda, and their implications for public policy. Finally, we note some ways in which the early bias towards public expenditures on social services may be difficult in practice to redress.

Initial Bias towards Public Services, Increasing Attention to Growth

C2.4 There is general recognition of the need to give more weight to economic growth issues and to the expansion of private sector opportunities. This is reflected, inter alia, in the changing balance of the PEAP and of PRSC policy matrices, as illustrated in Box C2.1, with a substantial increase in the number and range of PRSC actions linked to the relevant PEAP pillars. A broad cross-sectoral dialogue attended the development of the Plan for the Modernisation of Agriculture, which itself incorporates innovative, private-sector-based approaches to the provision of agricultural services. There thus appears no inherent incompatibility between the PGBS approach and attention to private sector and growth issues.⁴²

⁴¹ Possible reasons for recent pressure are apparent in the discussion of interaction between aid modalities in Chapter C4 below.

⁴² There is a separate issue as to when and in what circumstances aid may promote private sector development more effectively through specific projects, or through assistance that is not directly to government at all, than through PGBS. That is beyond the scope of this evaluation, but see the discussion of interaction between modalities in Chapter C4 below.

Box C2.1: Increasing Focus on Growth and Production in PRSC Dialogue

PRSC1 (2001)	PRSC 3 Matrix (2003)	PEAP3 Matrix – PRSC 5 (2005)
<p>PEAP PILLAR 1 – Framework for Economic Growth and Structural Transformation. PRSC Objective: Efficient and Equitable Use of Public Resources:</p> <ul style="list-style-type: none"> – Allocations and actual expenditures, intergovernmental transfers, results orientation. <p><i>Number of actions: 6.</i></p>	<p>PEAP PILLAR 1 – Framework for Economic Growth and Structural Transformation. PRSC Objective: Efficient and Effective Use of Resources:</p> <ul style="list-style-type: none"> – Allocations and actual expenditures, intergovernmental transfers, results orientation and monitoring and evaluation, financial sector. <p><i>Number of actions: 12.</i></p>	<p>PEAP Pillar 1 – Economic Management:</p> <ul style="list-style-type: none"> – Macroeconomic stability consistent with rapid private-sector-led growth. <p><i>Number of actions: 24.</i></p>
<p>PEAP PILLAR 3 – Directly Increasing the Ability of the Poor to Raise their Incomes. No PRSC Objective:</p> <ul style="list-style-type: none"> – Plan for Modernisation of Agriculture. <p><i>Number of actions: 0.</i></p>	<p>PEAP PILLAR 3 – Directly Increasing the Ability of the Poor to Raise their Incomes. PRSC Objective: Promotion of Enabling Environment for Rural Development:</p> <ul style="list-style-type: none"> – Research and technology, agricultural advisory services, rural finance, agro processing and marketing, natural resource management; district roads. <p><i>Number of actions: 12.</i></p>	<p>PEAP Pillar 2 – Production, Competitiveness and Incomes:</p> <ul style="list-style-type: none"> – Increased, more efficient private sector production; agricultural production; sustainable forestry production; non-agriculture goods and services. – Strengthened infrastructure – Strengthened env. and NR management regime. – Strengthened financial sector in support of production. <p><i>Number of actions: 62.</i></p>
Total number of actions: 46.	Total number of actions: 70.	Total number of actions: 201.

Source: See Annex Table 3C.1 for actions under all PEAP pillars.

Private Sector Constraints

C2.5 The 2004 PEAP highlights that the greatest constraint to doing business in Uganda, as cited by the business community, is the cost of borrowing, with access to financing also a problem (see Annex 2, Box 2A.1). Despite the buoyancy of private sector investment (see Chapter B6, ¶B6.13), this assertion is consistent with high domestic interest rates deterring private sector investment (although much financing is used by the private sector as working capital). Lending by microfinance institutions has been expanding, but such lending is more suited to urban areas, and biased towards non-farming activities. Access to credit for poor rural farmers is problematic, because of short lending cycles.

C2.6 Tax rates and administration are also major constraints to the small, formal private sector which shoulders almost the entire tax burden. Macroeconomic stability also is given as a major constraint by businesses, despite Uganda’s track record. Uganda’s lack of power generation has resulted in increasingly frequent power shortages, and this is emerging as a major constraint to private sector growth. However, over the past decade there have been significant improvements in other types of infrastructure, especially roads and communications, which have improved access to markets and facilitated growth.

C2.7 The public sector has a direct and/or indirect role in many of the constraints highlighted by the private sector – many of which demand better policy and administration, not additional public expenditure. Attempts are being made to address bottlenecks in areas such as the registrar of companies, the immigration department and customs. In the early 1990s there were 37 bureaucratic hurdles for an investor to start a business; by 2003 this was down to 17 (IFC and World Bank 2003). There have been significant improvements in roads and communications. Land reform has yet to yield major positive results. Corruption is also a major

issue for the private sector, and firms regularly have to pay bribes when dealing with public officials.⁴³

C2.8 Recent increases in inequality point to many of the poor being excluded from economic growth. Constraints faced by the poor engaged in smallholder agriculture include information, organisation of marketing, infrastructure, access to assets, depletion of assets and access to finance. Uptake of new farming technologies by smallholder farmers is slow and only 30% of farming households have access to market information. However, comparative survey evidence over time (Okidi et al 2004) suggests that, as a consequence of public investment, the poor are closer to rural infrastructure such as roads, schools, and health facilities in 2002/03 than they were a decade before. This should provide them with a better opportunity to make use of their productive assets. However, there is concern that too much focus has been placed by the public sector on the supply side, improving the productivity of the poor, while not enough focus has been placed on stimulating demand for goods and services that could be provided by the poor.

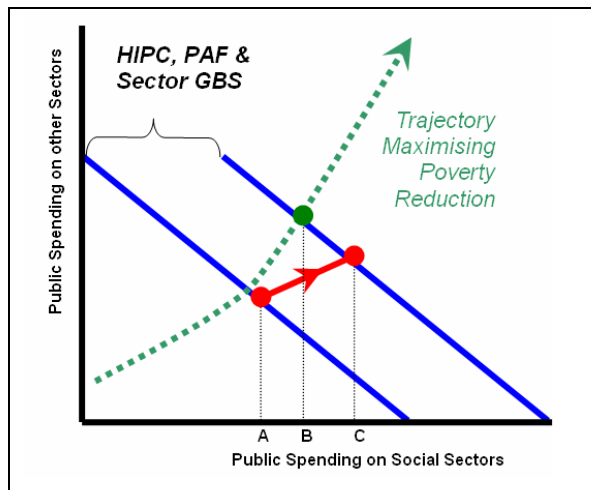
PGBS Influence

C2.9 Major factors behind the impressive record of pro-poor growth in the early 1990s were macroeconomic stability, combined with a strong liberalisation agenda. Assessments of Uganda's policies with respect to the private sector are fairly positive (see Fox (2004) on the PEAP treatment of private sector issues). There is a strong record of private sector investment and growth (Chapter B6, ¶B6.13). However, as shown in previous chapters, the emphasis of public sector activity and public expenditures has been on the expansion of basic social services, such as health, education, water and sanitation, and consequently not on those which might directly enhance growth, and address the constraints faced by the private sector. We have shown that there are signs that some macroeconomic effects have been to the relative disadvantage of the private sector (notably the higher domestic interest rates resulting from sterilisation) although this is in the context of likely higher growth and domestic demand as a result of the aid inflows; moreover, these effects are essentially due to the influx of aid, not specific to the PGBS form that it took.

C2.10 Williamson and Canagarajah (2003) argue that mechanisms such as the Poverty Action Fund and SWAPs in the social sectors may have shifted the mix of public spending too far in the direction of social services and away from the optimal allocations for reducing poverty. Sector budget support was mostly notionally earmarked to the social sectors early on, and therefore contributed to this skewing of the budget towards the social sectors. This has directly contributed to the subsequent difficulty the GOU has had in expanding public expenditures which are likely to promote growth. At the same time, project support has also been biased towards the social sectors, so that this bias is not an exclusive domain of PGBS.

⁴³ See Chapter C5 below.

Figure C2.1: Skewing Public Spending towards the Social Sectors



Source: Canagarajah and Williamson (2005).

C2.11 In the second half of the evaluation period, private sector issues have gained greater prominence in public sector policy (as reflected in Box C2.1 above). The GOU has decided to limit growth in public expenditure, partly due to concerns that this public expenditure was crowding out the private sector. Given increasing rigidities in the budget, this has, ironically, limited the ability of the GOU to expand expenditures which might facilitate private sector growth. For example, since its introduction in 2000, the GOU has been unable to fund the roll-out of the National Agricultural Advisory Services fully, or expand rural electrification programmes significantly. Meanwhile some argue that the cost to the public sector of interest payments related to the GOU sterilisation policy (again instigated due to concerns over exports) would be better spent by the public sector on directly addressing constraints to private sector investment – such as power and transport infrastructure. These are issues for the GOU (and its aid partners) to address more explicitly in future strategies for public expenditure and aid.

C3. Government Capacity and Capacity Building

Government Capacity and Capacity Building

C3.1 Uganda has been characterised as having strong political capacity but weak administrative capacity. Systemic capacity building ("strengthening government processes and systems" – Miovic 2004) is one of the basic objectives of PGBS, but, as we have noted, specific TA/CB activities are the least well-specified of the PGBS inputs (see Chapter B1, ¶B1.12). We have noted a number of important ways in which PGBS – often through the empowering effect of a flow of discretionary funds – has served to support the strengthening of government capacity, particularly in aspects of PFM. At the same time, even in areas where progress has been made, TA/CB inputs have been rather fragmented and uncoordinated.

C3.2 However, before assessing progress in this area, it is important to note the difficulty in assessing issues of capacity objectively:

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. (Miovic 2004)

C3.3 Two main areas seem especially relevant: PFM and decentralisation. PFM is the natural focus of PGBS capacity development because (a) PGBS generates a more direct IP interest in fiduciary standards and the accountability of government; and (b) the quality of planning and budgeting systems is vital to efficient and effective use of PGBS resources. But decentralisation has emerged as an equally important area. Local governments are the front line of the primary service delivery that PGBS has helped to expand, and decentralisation thus moves the issues of effectiveness in service delivery and of fiduciary standards and accountability to LG level.

PFM Capacity Development

C3.4 Capacity development for PFM has been reviewed in Chapter B4 (¶B4.16–B4.18). It is evident that PGBS funds have helped ensure government institutions pay greater attention to their budgeting capacity. However, over the majority of the evaluation period IP support to PFM has been weakly coordinated. There has recently been increasing collaboration by donors on common standards and approaches (see review in Annex 4B), and the beginnings of a more coherent approach in which the TA/CB inputs of different donors are to be linked to an overall PFM reform programme. Progress is helped by IPs' obvious interest in sharing PFM analysis, and by the development of transparent standards of performance and common concepts of good practice (see, most recently, the PEFA indicators used in Annex 4B and the "strengthened approach" to capacity development for PFM included in OECD DAC 2005a). It is now intended to undertake a review of PFM performance against the PEFA indicators every year for both central and local government.

Decentralisation and Capacity Development

C3.5 We have noted that, partly through happy coincidence, PGBS provided a major boost to the government's decentralisation strategy. Technical assistance and capacity building linked to decentralisation (largely under LGDP, but also other bilaterals) and the accounting function in local governments (provided under EFMP2), which has been linked to the PRSC dialogue, have helped improve local government institutional capacity. However, as noted in Chapter B7 (¶B7.19–B7.20), these areas have been given less attention than their significance in maximising the benefits from PGBS might indicate.

C3.6 At the outset, local governments were weak institutions, with little functional administrative capacity. Capacity has improved substantially. Improvements in institutional capacity at local levels have also largely followed the increases in funding for local governments. The increasing size of local government budgets has helped them attract better staff. Other initiatives such as the performance assessment process under the Local Government Development Programme (LGDP – see Annex 6) which is linked to the Local Development Grant (supported by notionally earmarked PGBS) has helped provide strong incentives for local governments to upgrade their functional and administrative capacity. More recently, standardised training modules have been rolled out across local governments. Such initiatives have been linked through the PGBS and PRSC dialogue (albeit with inadequate priority); however, the improvements influence service delivery only indirectly, and do not address institutional capacity in specific services, which necessarily needs action at the sector level.

C3.7 Therefore while there have been significant improvements in some areas of higher local government institutional capacity, weak capacity of service providers themselves is a continuing concern, and there is little evidence of any systematic improvements over the evaluation period. While increased flows of funds have served to capacitate schools, health centres and other institutions in terms of increasing the inputs available to deliver services, local government management of service providers is weak.

C3.8 There has been some progress, however. Central line ministries have gradually begun to adapt to the decentralised environment, and the shifting of funding towards local government accelerated this shift. Ministries have begun to provide and then improve the quality of support and supervision to local governments and this was facilitated with funds provided via the PAF. However, the activity of central ministries in this regard varies substantially. Some sector ministries have made efforts to strengthen the management function in local governments, especially in health and water where regional teams support local governments, but this has not occurred in all sectors. The district education office and inspectorate, for example, receive little financial or institutional support from the central ministry, and are solely reliant on districts' local revenues, which vary significantly across local governments (and have lately been undermined by the abolition of Graduated Tax).

C3.9 At a sector level, dialogue and conditionality have not been effective at facilitating improved institutional capacity for delivery in most sectors, while the approaches to CB and use of TA by different sectors vary a lot and make generalisation difficult. Sector TA/CB is likely to be most relevant and effective when it is aimed at strengthening the management and support local governments provide to service providers. While some sectors, such as health and water mentioned above, have taken this approach (see Box C3.1), others such as education and agriculture have set up structures in parallel to local government systems, and focused on building capacity there. In general, central agencies have been slow to recognise and engage with the decentralisation process, and to give due attention to the initiatives, systems and

processes that are likely to improve the management and incentives for delivery. Nevertheless, there has been a shift by donors towards TA and CB which focuses on government systems in most sectors, and, although still fragmented, this support is more aligned with government policies than before.

Box C3.1: Different Approaches to Building Capacity in Service Provision

Technical assistance and capacity building have been most effective when they have been supporting the implementation of government systems and targeted at building strong local government institutions:

- At a sector level, regional support teams in health regularly monitor and provide support to district health offices. Regional offices of the directorate of water development provide technical support to the district water offices. These ministries have been most active in supporting local governments in situ.
- At a cross-sector level, with support from the Local Government Development Programme, the Ministry of Local Government has established standardised training modules, which local governments can draw from depending on their capacity needs. In addition USAID has helped provide capacity building to (some) local governments, assisting them in implementing the fiscal decentralisation strategy.

But not all of central government has tried to work through supporting local governments:

- In education more attention has been placed on strengthening Centre Coordinating Tutors and Primary Teachers Colleges, which fall outside the purview of local governments. Comparatively little attention has been provided to support district education offices and schools inspection as a means of supporting teachers.
- In formulating the National Agricultural Advisory Services, the Ministry of Agriculture chose to bypass existing production offices, and establish parallel structures which have been given intensive support.

However, in either case it is difficult to attribute much in terms of the gains in service delivery performance to improvements in TA and CB.

C3.10 The annual LG assessment and benchmarking exercise (derived from LGDP; see also the first LG PEFA analysis reproduced in Annex 4B) again offers opportunity for close monitoring and links the supply of TA/CB support to systematic review and demand for continual improvement in capacity. However, our review of decentralisation and PGBS (see Annex 6 and the summary of conclusions in Chapter D1, Box D1.1) indicates that IP responses have suffered from lack of coordination when contrasted with actions under recognised SWAPs, such as those in education and health. It should be possible to build on the existing donor group for decentralisation; the first Joint Annual Review of Decentralisation (JARD) in 2004 was a useful beginning.

Other Issues in Capacity Development

C3.11 The PRSC has regularly included general public service reform actions, most notably pay reform, which has appeared as a prior action in all PRSCs to date (see Annex 3, Table 3C.3), but without notable success. However, addressing such issues is crucial if the GOU is to attract and maintain high-quality staff in central ministries, especially as private sector employment prospects are increasingly attractive.

C3.12 Reforms in PFM came more directly under the influence of MFPED, but such cross-agency reforms, inherently more difficult, have lacked the same bureaucratic and political backing. In principle, the shift of PRSC coordination responsibility to the Office of the Prime Minister (OPM) should increase opportunities for pursuing general public service reforms, but, as yet, the OPM lacks the authority and capacity that MFPED enjoyed for many years. Strengthening the OPM's ability to manage the PRSC process and monitor all aspects of its implementation will be a first requirement (Chapter B9).

C3.13 This relates to a more general point. In what is likely to be a more difficult environment for PGBS (a point developed in Chapter D2 below), it will be important for IPs (a) to reinforce and consolidate capacity gains already made – such as the strengthened links between policy and budgeting, which depend on the continuation of the medium-term budgeting process as a genuine budget challenge; and (b) to avoid undermining GOU systems, and drawing capacity away from GOU, by a reversion to the use of parallel systems.

C3.14 Capacity building for decentralisation is a particular challenge, while capacity building efforts linked to PGBS have so far focused mainly on central government. The challenge for PGBS in future is for the GOU to develop more coherent capacity building strategies across sectors (broadly interpreted to include such themes as decentralisation, PFM, public administration, as well as the conventional sectors) and to move beyond monitoring only the implementation of agreed actions towards ways of benchmarking and monitoring the performance and capacity of GOU agencies and systems.

C4. Quality of Partnership

Introduction

C4.1 PGBS was motivated by a desire to improve aid effectiveness. A key belief was that coercive conditionality was ineffective, and that IPs needed to promote ownership and support national strategies. The "partnership" is not simply between IPs and government: it embodies partnership among IPs, guided increasingly by the Rome and Paris agendas for increased harmonisation and aid effectiveness (OECD DAC 2003b, 2005b). Anticipated benefits from H&A were loosely summarised as "reduced transaction costs". In this chapter we (a) pull together our assessment of ownership and conditionality; (b) review transaction costs; (c) discuss other aspects of the interaction between aid modalities.

Ownership and Conditionality

C4.2 There is a direct relationship between ownership and conditionality, but not a simple one. Neither term is an absolute. There can be degrees of ownership of the policies that PGBS supports. We have noted, for example, that although successive PEAPs have become technically more sophisticated, there has been a weakening of presidential commitment to them. Reforms promoted through the PRSC have frequently had support from MFPED but needed to overcome resistance from other GOU agencies. Assessing ownership is not straightforward. With money at stake, there is an incentive for GOU participants to say what IPs want to hear. In any case, ownership is better indicated by behaviour than by statements. There are subtleties, too, in assessing conditionality. There is no doubt that many conditions continue to apply to PGBS, but the question is whether the nature of the conditions has changed in a way that is consistent with the PGBS intention to promote GOU ownership within a partnership.

C4.3 Miovic describes the PRSC intention as follows:

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;
- The Government firmly leads and manages all aspects of the reform program across all sectors, including prioritisation of objectives, program design, implementation and monitoring, and impact evaluation; and
- Donors play the role of technical advisors and facilitators. (Miovic 2004)

C4.4 There is evidence from Uganda as well as elsewhere of the failure of coercive conditionality (paying for reforms that the government does not believe in and is not committed to). Ddumba-Ssentamu et al describe clearly how the adjustment conditionality of the late 1980s and 1990s was ineffective in securing macroeconomic discipline until the point when the GOU itself became convinced of the requirement. At that point, the GOU adopted reforms that were more rigorous than the Bretton Woods Institutions (BWIs) would have attempted to impose and the Permanent Secretary of MFPED is quoted describing this as "the beginning of ownership".

C4.5 Some critics see present aid terms as barely disguised adjustment conditionality. They point to the number of explicit conditions attached to PGBS, and most obviously to the PRSC, and question whether the extensive involvement of the donors at all stages of the planning and budget cycle can be consistent with national ownership. Our judgement is that, on balance, there has been a significant change in the relationship although the danger of donors being

over-intrusive is a real one. Conditions are drawn up jointly by the GOU and IPs; the GOU side is clear that it can refuse to include a particular condition. PRSC matrices have included many conditions not directly drawn from the PEAP but, as Booth and Nsabagasani point out, the first two PEAPs did not include the intermediate process indicators that are necessary for annual monitoring, and there is now a convergence between PEAP and PRSC matrices. The number of conditions, though often cited, is not a good indicator of the onerousness of conditionality. First, it is important to distinguish between targets that are simply an agreed focus of monitoring and those that serve as triggers or prior actions for the release of funds. Second, the latter are often negotiated to include actions that are already certain. The primary function of such conditions is not to make something happen that would not otherwise have happened, but to provide a signal to funders that the reform process is continuing to progress. They can have a secondary role in reinforcing and prioritising certain reforms ahead of others (see Box C4.1).

Box C4.1: Examples of a Positive Role for Policy Dialogue and Conditionality

Many GOU interviewees pointed to the positive role the dialogue and conditionality around the PRSC played in maintaining the pace of reform:

- The Integrated Financial Management System (IFMS) had high level, but narrow support within the Ministry of Finance, but limited support across government. Having prior actions relating to the IFMS in the PRSC gave the Ministry of Finance more leverage in implementation of the system. Now that the IFMS pilot is well under way, many of the sceptics have been won over.
- In the 1990s there was little discipline in preparing audit reports, and little pressure for the Auditor General to meet its statutory deadline. The emphasis in the PRSC on timely audit has helped support the Auditor General in ensuring that staff prepare reports on time, and now the onus is on Parliament and the Treasury to respond.
- In the education sector, the GOU failed to meet a condition relating to conducting an audit of the education sector due to concerns about financial management in local governments. Although the prior action was misconceived, this led to the a directive from the President that all local governments should comply with the law and submit monthly accounts to central government – which has largely been adhered to since then.

Source: Interviews with MFPED and OAG staff.

Transaction Costs

C4.6 Another practical concern is that the quality of partnership, and its constituent dialogue and conditions, is undermined by the high turnover of donor staff, and a lack of specialisation of those staff (although there is evidence of increased selectivity). This means that IPs often neither have the capacity to dialogue effectively with the GOU on technical policy issues, nor understand the political economy of the reform process.

C4.7 Reducing transaction costs has been seen as one of the principal objectives of the PGBS modality. The costs most often cited are those of multiple missions to negotiate and monitor a plethora of parallel aid instruments: the PGBS approach is seen as a way of reducing the costs associated with such duplication. However, transaction costs include the overheads of delivering and utilising aid at all stages of the cycle – not just negotiation and monitoring, but also disbursement and execution. Since budget support is disbursed, and procurement takes place, through a single GOU system rather than a variety of donor ones, there is a large transaction cost saving for GOU as well as for IPs. Annex 4A on the efficiency of public expenditure cites evidence that administrative overheads associated with standard GOU execution are substantially lower than for separate donor-funded projects with separate management arrangements, procurement procedures, etc.

C4.8 Miovic 2004 reviewed the financial costs to the World Bank of preparing and supervising PRSCs, and concluded:

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 from 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.

C4.9 In some ways the financial savings to the GOU and at least some of the main donors are less visible than the burdens associated with the frequency, size and demands for high-level GOU attention of the PRSC missions which are the centrepiece of the PGBS process. The interaction involved has benefits as well as costs to both sides, and the GOU officials involved make clear that the budget support approach is much preferred to other modalities. Nevertheless, there would be advantages in streamlining. This could be done (a) by basing the WB Task Manager in Kampala, instead of Washington (this has happened, effective 2005) and (b) by further use of the principle of "nesting" sectoral dialogue within the PRSC (PFM reform and decentralisation are two candidates for treatment as "sectors" in such an approach).

Interplay between Aid Modalities

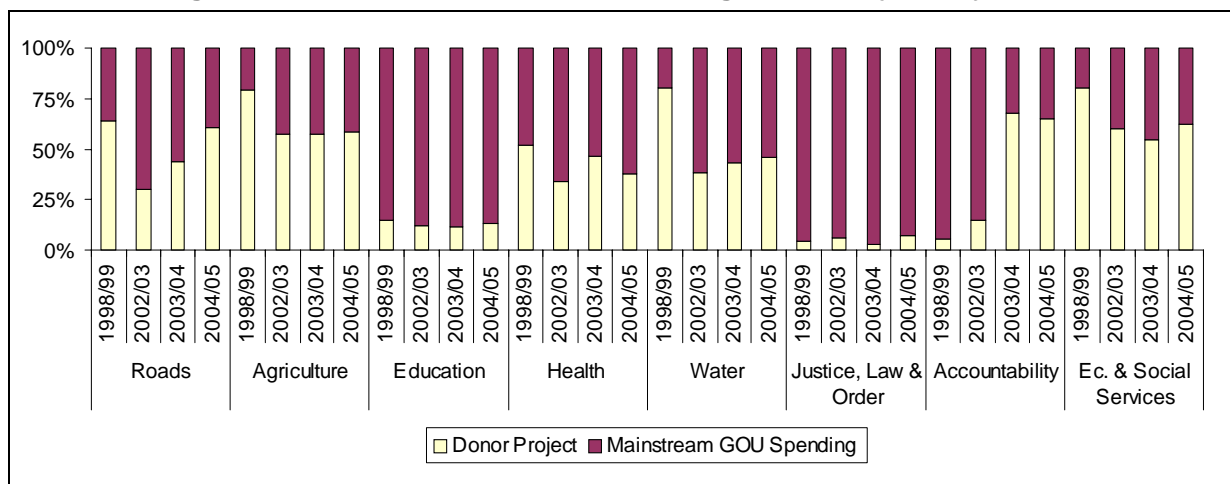
C4.10 This is not a comparative study of different aid modalities. However, several aspects of interaction between modalities emerge strongly from the evaluation of PGBS. Notably:

- (a) There is not a clear division between GBS and sector budget support. This is particularly true in Uganda's context where SWApS have generally avoided parallel sector basket funds and worked through government disbursement systems, where sector earmarking is notional, and where there is a clear articulation between sector and general dialogues.
- (b) There is much actual and potential complementarity between modalities. At the level of individual donor portfolios all donors use some mix of aid instruments; these partly reflect agency preferences and HQ rules, but they also match instruments to specific purposes and seek a balance of topic interests and a spread of risks. At sector and sub-sector level there are many complementarities – including complementarities between PGBS and non-PGBS donors (e.g. USAID's capacity building support for LGs which reinforces the fiscal decentralisation strategy although USAID is not a PGBS donor).
- (c) There are also actual and potential dissonances. Thus we have noted that the scale of the shift into PGBS was certainly important: it made a non-marginal difference to the discretionary funds available to the GOU, and this was important in the strengthening of planning and budgeting that resulted. Conversely, the persistence of parallel project modalities has tended to undermine some of the efficiency gains from PGBS.

C4.11 The balance between GOU budget spending and project-earmarked funding varies systematically by sector – see Figure C4.1: this is drawn from the MTEF and shows the budget/project split for the past three years against the benchmark year of 1998/99. Of the major spenders, education stands out as the one where most public expenditure now takes place through the budget. Infrastructure sectors (roads and water) are much more dependent on projects, and so too are the agriculture and health sectors. In all these cases there was a marked increase in the GOU budget share between 1998/99 and 2002/03, but it has since tended to erode. There are likely to be general and sector-specific reasons for this. A general reason may be the erosion of trust between IPs and President Museveni prompting a reversion to project modalities (see Chapter C5 below). At the same time, each sector has characteristics that make it more or less amenable to project (and TA) modalities, and, related to this, the donors specialising in different sectors have different preferences among aid instruments. It is obvious that different modalities can be complementary; but this does not mean that the balance

between modalities in any given sector is a matter of indifference. This is illustrated, for the health sector, by Box C4.2.

Figure C4.1: Balance between GOU Budget and Projects by Sector



Source: MTEF.

C4.12 In this context, the move to incorporate project aid within MTEF ceilings is of pivotal importance. The move was announced at the October 2003 budget workshop, and incorporated in the 2003 Partnership Principles (see Annex 3D):

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.

C4.13 The measure has been formally introduced from 2004/05. The rationale⁴⁴ is to:

- ensure that aggregate government expenditures reflect national priorities (and not donor priorities);
- ensure that specific sectors (such as health) are not unfairly penalised if donors shift from project support to budget support;
- provide incentives to donors and line ministries to shift aid from project support to budget support;
- enable MFPED to compile more accurate estimates of total Government expenditure and so improve macroeconomic planning.

⁴⁴ Cited in Beynon 2003.

Box C4.2: Interaction between PGBS and Other Modalities in the Health Sector

The following perspective on using PGBS to support Uganda's health sector was provided by one of the PGBS donors in the sector (comments have been edited)

The present situation is not totally favourable for GBS, mainly reflecting two factors:

- The USA has become increasingly unilateral over the period from 1994–2004 while also increasing its economic support to low-income countries – not least Uganda.
- The larger group of bilateral donors and the financial multilateral donors, themselves drawing on an increasingly strong set of private donors, have found reasons to use a split strategy of financing, including both GBS and project support. Support to Global Health Initiatives (GHI) has played a decisive role in the development of this policy split.

GBS now exists in a complex policy environment for development aid. This environment includes both an increasing share of support via projects and – specifically for Uganda – strict implementation of cash limit budgeting in the format of MTEF ceilings. In combination, these two features of the policy environment may marginalise GBS and create a situation where *some aid* is being delivered through GBS but the positive effects of GBS are never allowed to appear, since improved ownership, lowered transaction costs, etc. are overshadowed by the competing effects from project financing mechanisms.

The health sector is particularly vulnerable to these dynamics because of its large share of heavy project funders. The “mixed strategy” of health aid financing is driven by forces operating both on the donors' side and on the recipient side:

- On the donor side, a common reaction is that GBS means a considerable loss of “profile” for the donor. On a rather naïve level, it can be described as the frustration felt by GBS donors who have listened for the *n*th time to praise from civil society, districts and ministries directed to project donors – always named. The GBS donors – often giving much more money – on the other hand are rarely mentioned. On a more serious note, GBS may be understood as “endless” in contrast to projects that appear to be limited in time. This suits many donors who need to make decisions for aid in a limited time scale – often 2–4 years. It is also possible that arrangements between public donors and private donors in Public Private Partnership (PPP) exclude the use of GBS and, since these arrangements have become increasingly popular, GBS suffers.
- On the recipient side, GBS suffers for two very important reasons:
 - The line ministry – MOH – finds its financing volume for Health Sector Strategic Plan (HSSP) realisation untenably low and seeks additional finance. MTEF ceilings prohibit extra money from coming in through the GBS mechanism, while project money often finds its way through the MFPED MTEF net. Thus seeking GBS is only a way of supporting the general PAF fund, without any positive effects on the health budget.
 - Ministerial and district staff are generally underpaid. GBS does not let any money “go their way”. Project money is a different story. A multitude of workshops and training seminars are set up including the use of per diems and similar allowances. Project managers sometimes offer their counterparts in government and districts foreign travel to allow participation in conferences abroad.
- Projects also tend to allow for decentralised decision making within recipient organisations. Programme managers can control the use of funds and do not risk losing money to other areas of work through reallocation decisions by higher-up managers.

Source: IP comments in response to the draft version of this report.

C4.14 However, the Partnership Principles do not provide criteria for establishing an optimal (or best fit) combination of modalities in different sectors. The challenge – for GOU and IPs working together – is to establish sustainable financing strategies for each sector that are macroeconomically consistent,⁴⁵ that take account of the comparative advantages of different modalities and different IPs, but that do not perpetuate incoherence and decapacitation of government systems. There is, however, a danger that IPs, under pressure to disburse, will increase off-budget aid. The OECD DAC data indicate this may actually be happening (see Chapter A3, Figure A3.1).

⁴⁵ The Long Term Economic Framework that MFPED has developed is a relevant focus.

C5. Political Governance and Corruption

Introduction

C5.1 The term "governance" is used to embrace a whole spectrum of political and technocratic issues, from the democratic basis of the state to procedures for ensuring propriety in public expenditures. IPs have different mandates and attitudes towards engagement in the more political aspects of governance. The PEAP itself includes governance among its principal pillars, and PEAP3 has reinforced the emphasis on various aspects of governance, including security, as determinants of welfare and conditions for development.

C5.2 "Democracy and human rights" is among the CCIs mentioned specifically in the study TOR, but in practice this is enmeshed with wider issues of (political) governance. The salience of governance issues has been affected by two trends: (a) globally, an increasing attention to the role of governance in development, and, directly, as an aspect of welfare (empowerment); (b) changing IP perspectives on the political governance performance of the regime in Uganda. At the political end of the governance spectrum, differences in approach appear between IPs, related to their different interests and mandates.

C5.3 Concerns over human rights have become more prominent during the course of the evaluation period. In the mid-1990s the programme aid review was able to observe a move away from macroeconomic dialogue towards concern with "second generation" issues, and commented:

Among these second generation conditions, the political system and the human rights situation are notably absent. Donors have by and large accepted the no-party democracy and judge the human rights situation as satisfactory and in any case as better than in neighbouring countries. (Ddumba-Ssentamu et al 1999)

C5.4 Since then, a number of important bilateral donors have become impatient with the NRM version of democracy, and more proactive about human rights. Their concerns are reflected not only in their highlighting of governance issues but also in complementary activities, including support to civil society and NGOs in the field of human rights, and the SWAp that has developed for the Justice, Law and Order sector (JLOS⁴⁶) within government. These activities are not at all inconsistent with a PGBS approach, but there is an appreciable risk that high-profile problems over human rights could jeopardise the continuity of donor support for PGBS. Corruption has also emerged as an issue that poses special risks to PGBS.

C5.5 In this chapter we:

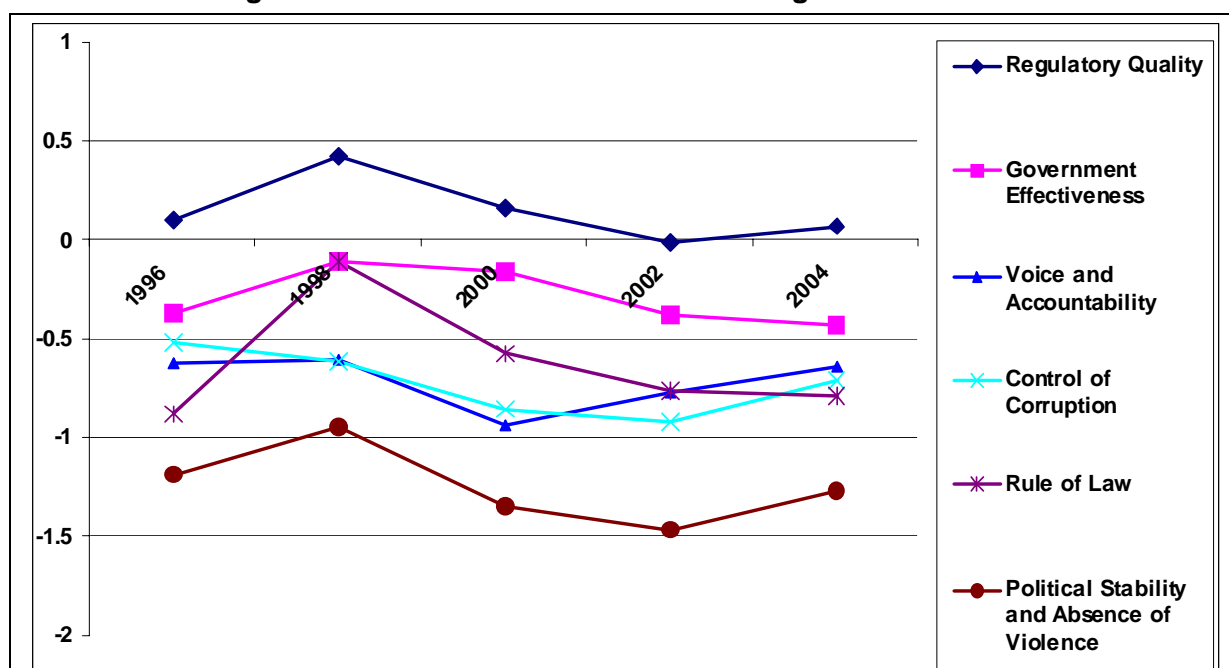
- review governance trends;
- note the way governance issues have featured in the (PGBS and wider) dialogue;
- discuss corruption in particular; and finally,
- comment on democratic accountability.

⁴⁶ The JLOS SWAp was a Ugandan initiative which recognised that JLOS needed to be better organised, not least to compete for (PAF and other) resources with the earlier SWAps in health, education, etc.

Governance Trends

C5.6 One of the factors facilitating additional and innovative IP support for Uganda from the mid-1990s was its reputation for being relatively well managed. Uganda remained in the top CPIA quintile in 1999 and 2003⁴⁷ but a more detailed review of publicly available governance indicators helps to explain the changing donor mood. Figure C5.1 shows Uganda's performance from 1996 on the six composite governance indicators published by the World Bank. All the indicators were moving upward between 1996 and 1998, and all moved the other way thereafter. Most show some improvement between 2002 and 2004, but all remain below 1998 levels.

Figure C5.1: Governance Indicators for Uganda 1996–2004



	1996	1998	2000	2002	2004
Regulatory Quality	0.10	0.42	0.16	-0.02	0.07
Government Effectiveness	-0.37	-0.11	-0.16	-0.38	-0.43
Voice and Accountability	-0.63	-0.61	-0.94	-0.77	-0.64
Control of Corruption	-0.52	-0.62	-0.86	-0.92	-0.71
Rule of Law	-0.88	-0.11	-0.58	-0.76	-0.79
Political Stability and Absence of Violence	-1.19	-0.95	-1.35	-1.47	-1.27

The World Bank has published composite governance indicators for 1996, 1998, 2000, 2002 and 2004, covering the six areas shown. The indicators are updated every two years. All relevant information (including data, methodological papers, interactive charts, and world maps) for the last round of updates (2004) is now posted on the web at: <http://www.worldbank.org/wbi/governance/govdata/>. The next round of governance indicators will be posted in early 2007. The indicators are revised periodically, so scores presented now are not necessarily the ones that were available at the dates they refer to. Indices are calibrated against a norm-referenced score of zero.

C5.7 A number of factors have eroded the IP attitudes described in 1999 (¶C5.3 above). These include, most recently, the constitutional amendment to remove presidential term limits, President Museveni's decision to seek a third term, and the treatment of opposition parties and

⁴⁷ Data cited in Eifert and Gelb 2005. The World Bank's Country Policy and Institutional Assessment ratings play a strong role in determining its country allocations of resources.

candidates. Longstanding disquiets include the continuing conflict in the north (seen by some observers as convenient to the regime – see Barkan et al 2004), defence expenditures and procurement scandals, Uganda's role in the DRC, and evidence of high-level corruption on a large scale. The use of public resources to dispense political patronage (a strong motivation behind the proliferation of new districts) has prompted a belated recognition that Museveni's system is, after all, much more like other patrimonial systems than was once supposed.

Governance in the Dialogue

C5.8 Successive PEAPs have included governance issues as one of their main themes, and the treatment of governance in PEAP3 is more extensive than in its predecessors (see Annex 3C, Table 3C.1).

C5.9 During the early years of PGBS it became apparent that a number of bilateral donors wished to engage the GOU on a range of issues that extended beyond what the World Bank saw as its mandate. The bilaterals' concerns led them to develop an additional "Governance Matrix". This raised issues that were not covered in the PRSC matrix, under four headings: the democratisation process, the human rights situation, transparency and accountability, and national and regional security interests. A joint donor technical group⁴⁸ was established to monitor progress against proposed actions and output targets, but initially they found it difficult to engage with the government on their issues of concern. The matrix is now discussed with the OPM rather than MFPED, and is based on the "Good Governance and Security" pillar of PEAP3. However, as we have noted, the present PEAP does not have the strength of political ownership that was attached to the first one.

C5.10 The Governance Matrix was given added impetus by a crisis for all the GBS donors that was prompted by the defence budget saga of 2002/03. The GOU announced a substantial increase in defence spending after the budget had already been appropriated. There was a significant difference in stance between the World Bank (which interpreted its mandate as allowing it to take a strong stand on the grounds that the GOU had not adhered to the agreed budget but was wary of commenting on the merits of defence expenditure per se) and the bilaterals, which were less inhibited in including the level of defence spending as itself a legitimate concern. The outcome was that all donors delayed disbursements; the UK and the Netherlands actually cut disbursements. Ireland reacted by requesting that the rest of its GBS funds be reassigned to the PAF. In an echo of this episode in 2005, a number of donors (including the UK, Norway, Ireland) announced significant reductions in budget support to signal their dissatisfaction with progress towards a more democratic political system.

C5.11 The governance matrix sought to make bilaterals' concerns more explicit, but it could not be linked to disbursement conditions in a very mechanical way, partly because of the nature of the issues themselves, but also because, although the bilaterals would all have regard to the same set of issues, they might evaluate them differently. The governance matrix illustrates a key point about GBS: it offers a way to engage with government on governance issues that is not provided, or not so directly provided, by project or sector approaches. At the same time, it illustrates the limitations of such engagement: it provides an avenue of communication, and there is progress at technical levels and where there is a strong constituency for reform on the

⁴⁸ The joint donor technical group is called the Partners for Democracy and Governance (PDG). The following working groups are under the PDG: Democratisation Working Group; Human Rights Working Group; Anti-Corruption; and Northern Ugandan and Recovery from Conflict Working Group.

GOU side (valuable progress through the JLOS SWAp comes into this category⁴⁹); but budget support cannot "buy reforms" or ensure government behaviour that meets IP standards of democracy when the governing regime feels that its fundamental interests and ultimate survival are at stake.

Corruption

C5.12 Corruption takes many forms, ranging from the "petty corruption" at facility level to "grand corruption" and looting of state resources. Corruption is not necessarily for strictly personal gain: the financing of political parties and election campaigning is expensive and is commonly funded by the (mis)appropriation of state resources. With regard to the latter, it has become increasingly clear that Uganda follows much the same political pattern as most other African states and this has contributed to the tension between the NRM regime and its aid partners (Barkan et al 2004).

C5.13 The evidence on whether corruption is on the increase or decrease is not conclusive; but corruption is undoubtedly high, and Uganda is ranked among the 15% of countries suffering most from corruption (Transparency International 2004) and is given a rating of 2 out of 6 in relation to corruption in the International Country Risk Guide. However, the Second National Integrity Survey (Inspectorate of Government 2002) indicated some improvement in corruption. The consolidated index in Figure C5.1 above shows some improvement between 2002 and 2004 but still a net deterioration since 1998. There are also signs that there have been big improvements in funding reaching core services since the early 1990s (Reinikka et al). However, there is concern among development partners that there is little being done to tackle high-profile cases of corruption. At the other end of the scale, corruption in procurement, including LG procurement (Country Integrated Fiduciary Assessment – World Bank 2004c) is an immediate practical concern.

C5.14 From the outset, PRSC prior actions have included measures to tackle corruption (the Leadership Code first featured in PRSC1), but the demanding and technical legislation that has resulted was probably not commensurate with the political and technical context in Uganda – in short they required too much change too early on to yield significant impact. At the same time, the PGBS dialogue has been the main opportunity to address such issues in a systematic way. Much less spectacular work has been done to strengthen financial and procurement management systems, to increase transparency, to improve the management of a variety of public services. Thus, budget support (and the earlier HIPC initiative) have resulted in much more attention to fiduciary standards in the management of public resources (see Annex 4B), but there is a sense of disappointment among at least some donors that there has not been more dramatic progress in reducing corruption. Miovic (2004) observes:

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.

⁴⁹ Although it is not formally linked to the PDG structure.

C5.15 Corruption poses a number of threats to PGBS. The biggest is probably its ability to influence donor sentiment against budget support. This has two related sources: first, perceptions of high-profile corruption and of waste undermine public support for aid in donor countries. Second, there is an assumption that project aid is immune to fungibility in ways that budget support is not. Barkan, for example, takes this as axiomatic, although it is not at all self-evident that project aid is immune to corruption or to direct or indirect diversion, while there are significant safeguards built into the transparency of GOU budgeting, and the agreement on budget composition as a basis for budget support. What experience does seem to show is that budget support is more vulnerable than other forms of aid when the quality of the relationship between government and IP deteriorates and the IP wishes to distance itself from the regime. This creates a contradiction between the long-term systemic effects sought through PGBS and its immediate political vulnerability. This is likely to be a continuing challenge for Uganda's aid partners (see Chapter D2).

Governance and Democratic Accountability⁵⁰

C5.16 Objectives of PGBS include strengthening of domestic accountability in various different ways. Bringing more funds on-budget automatically has the effect of subjecting more public resources to the national systems of scrutiny, but much depends on the quality of those systems. There have been substantial technical improvements to financial management systems and procedures, but translating this into higher levels of *democratic* accountability requires more than strengthening the mandates and improving the capacity of the national bodies involved (bodies such as the Auditor General, the Inspectorate of Government, the Public Accounts Committee of Parliament and PACs at local level), although this is clearly necessary.

C5.17 Although many of the dialogue mechanisms through which IPs work have served to strengthen participation and accountability in government processes, we have also noted that PGBS does not always have a positive effect. Most notably, donor intervention in sector and budget processes can drown out domestic voices, whether of Parliament or civil society. Donor-driven reporting mechanisms can distract from the need to provide domestic stakeholders with information that will enable them to hold the state to account, whether at central or local government.

C5.18 A more fundamental issue is that the nature of political competition in Uganda, with its bias towards patronage rather than offering competing policy choices, does not foster the type and standards of democratic accountability that western donors expect at home and aspire to abroad. This is not to say that the objectives are inappropriate, nor that no progress is possible (PGBS is directly implicated in the progress that has occurred). But there does need to be realism about the speed and the depth of change that can be brought about through what are essentially technocratic means. IPs therefore need to persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.

⁵⁰ Parts of this section are adapted from Mokoro Ltd 2003.

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS

D1. Overall Assessment of PGBS in Uganda

Introduction

D1.1 This chapter provides our overall assessment of PGBS during the evaluation period. We note, and try to explain, its strengths and weaknesses. In Chapter D2 we consider the future prospects for PGBS, and in Chapter D3 we summarise our recommendations.

Overall Assessment

D1.2 PGBS is conceived as a combination of inputs, not limited to finance. However, both the volume of finance (nearly USD 1.8bn from 1998–2004) and its scale (rising to over 50% of ODA receipts and 30% of public expenditure) are important. It prompts two obvious questions: (a) was this volume of money well spent? and (b) how much did any non-financial effects of PGBS depend on the scale at which budget support was delivered?

D1.3 We return to the second question later (¶D1.11). As regards the first, our judgement is that, on the whole, these funds were well spent. PGBS funds have supported increasing public expenditures which have been relatively well aligned to a relevant poverty reduction strategy. Most importantly, PGBS has enabled the GOU to expand the delivery of basic services to the poor through decentralised bodies quicker than otherwise would have happened. As we showed in Chapter B3, there have, on balance, been gains in both allocative and operational efficiency. It is highly implausible that an equivalent disbursement could have been achieved through project modalities alone, or that the composition of expenditures would have been so appropriate if it had been. Nor would the same coherence and appropriateness of expenditure have been likely if all reliance had been on sector-earmarked transfers.

D1.4 In addition, the manner of the transfer, including the complementary inputs that accompanied the finance, clearly led to some of the institutional effects hypothesised in the Enhanced Evaluation Framework. In particular, it has supported alignment and harmonisation of aid, and a stronger budget process linking policies to expenditures and promoting efficiency in the use of resources. It has had a mutually reinforcing relationship with sector planning and coordination mechanisms, and was instrumental in the rapid implementation of an ambitious decentralisation strategy. Although accountability to IPs has sometimes taken precedence over accountability to domestic stakeholders, the overall effect of IP concerns for accountability has been to strengthen accountability systems that are of value to both domestic and international stakeholders.

D1.5 PGBS has not been a complete transformation of relationships between the GOU and IPs, but it is much more of a partnership than the pre-HIPC structural adjustment conditionality, and has helped to extend GOU ownership across aid modalities. The focus on government systems has helped to strengthen transparency and raise some fiduciary standards, although fiduciary risks remain high. PGBS was linked to a strategy (built on the HIPC approach) that prioritised basic public services and, in hindsight, paid too little attention to income-generation issues, on the one hand, and to the quality and pro-poor targeting of public services on the other. The pace of expansion inevitably had a cost in efficiency, and put the capacity and the accountability mechanisms of local governments under enormous stress (see Box D1.1).

However, the systems of dialogue and policy review associated with PGBS enable such issues to be confronted, and these early imbalances are beginning to be rectified.

D1.6 PGBS was not pre-planned to turn out as it has. There were large elements of good fortune and pragmatism in its development. In particular, at a time when sound macro-economic management of the economy had been established and growth trends were favourable, there was a fortunate coincidence of interests around a poverty reduction and institutional development agenda that could be supported by a coalition of the President the Ministry of Finance, Planning and Economic Development and the donors. MFPED's agenda of budget discipline and medium-term planning, together with its willingness to engage the donors openly in the policy and budget processes, allowed the Poverty Action Fund to develop into the flagship for a comprehensive system of budget support. The institutions associated with PGBS in Uganda have shown a significant ability to review and adapt to experience. As events during 2005 have shown, and as we discuss in the next chapter, the ability to adapt will be even more important in future.

Findings on Causality

D1.7 Each chapter in Part B has investigated specific causality links. In Annex 5 we present a summary of the findings for the different links and levels of the causality map. Attribution of causality is complicated by several factors. In particular, many of the non-financial inputs of PGBS (dialogue, conditionality, harmonisation and alignment, technical assistance and capacity development) are shared with other modalities. For example, there are joint systems of dialogue and review in which both PGBS and non PGBS partners participate, and TA support is often provided in this context. Thus we have judged TA and CB to be PGBS inputs where they are explicitly linked to the IPs' PGBS strategy, even though they may have preceded PGBS and may be delivered by parallel instruments. Also, there was already a head start towards some of the possible objectives of PGBS. Thus, macroeconomic discipline had already been achieved, and PGBS served to reinforce and empower, but not to initiate, a policy and planning system that MFPED had already put in place.

D1.8 The causality links that can be most confidently identified are those that stem primarily from the flow of funds. The policy and institutional effects arising from the non-financial inputs of PGBS, most notably policy dialogue, conditionality and TA have been less pronounced, but significant all the same. They have had strong effects on harmonisation and alignment, and supported useful joint processes of policy analysis and review which have engaged with a wider range of issues, and IPs. In areas such as sector policy and public finance management reform the positive effects of the non-financial PGBS inputs are evident. In such circumstances, the combination of PGBS technical and institutional support with agreed performance undertakings actually provides useful managerial pressure to those implementing reform initiatives, and helps maintain the momentum of improvement. PGBS has reduced the overall transaction costs of aid while helping to strengthen national PFM systems.

Box D1.1: Conclusions on PGBS and Decentralisation

The relationship between PGBS and decentralisation is reviewed in detail as a case study in Annex 6. Its main conclusions are:

1. PGBS has strongly facilitated an increase in funding of LG services and service delivery, particularly in the PAF areas, which would not have happened to the same extent with alternative aid modalities. The combination of PGBS, the PAF ring-fencing of funds, the SWAps and the inter-governmental fiscal transfer system provided both sector ministries and the donors with sufficient confidence that funds will be channelled through the LGs towards service delivery.
2. This was supported by progress towards harmonisation and alignment with GOU procedures and improved coordination of capacity building to LGs. This has enabled the LGs to fulfil many of their service delivery responsibilities as stipulated in the 1995 Constitution and the 1997 LG Act.
3. On the negative side, there have been problems with LG autonomy and lack of flexibility, questions over long-term sustainability, increasing dependency due to lack of an overall strategy and measures to improve LG own-source revenues, a tendency to focus on upward accountability (a kind of a deconcentration mode promoted by the strong SWAps and PAF conditionalities).
4. However, important measures including the Local Government Development Programme (LGDP) and the Fiscal Decentralisation Strategy (FDS) are addressing the difficult tasks of combining the adherence to national PEAP targets, confidence in the safeguarding of funds and minimising of risks, on the one hand, with, on the other, the aims of ensuring devolution in accordance with the original decentralisation objectives on local empowerment.
5. Recent policy initiatives, by making senior LG personnel more directly accountable to the centre, will have a severe governance impact. However, these recent events should not overshadow the past 10 years' experiences of a system that has gradually built up capacity at the local level to respond to service needs, gradually, although slowly, improved the weak interaction with the citizens, gradually provided more openness in administration (e.g. publication of transfer figures, planning and budgeting conferences etc.), and innovative initiatives such as the LGDP and the FDS to improve the LG performance incentives and the LG planning and budgeting autonomy and performance. PGBS has had a positive impact on this process, but development of efficient tools to improve downward accountability continues to be a future challenge.
6. Some recent developments have been of a highly political nature. But it has been acknowledged that the lack of an overall strategy, the fact that the PEAP has not sufficiently addressed the decentralisation issues, and the absence of a SWAp with a clear strategy, structure, funding arrangements and policy and review process, has made it easier to "swing the pendulum".
7. Dissonance between the "decentralisation group" (the Ministry of Local Government, the Local Government Finance Commission, the Uganda Local Authorities Association and the "like-minded" donor representatives) on the one hand, and the main sector ministries on the other, has been mitigated – but there is still a long way to go in mutual recognition and coordination.
8. In future, there is a need for better linkage between the decentralisation reform agenda and sector reform work, public administration reforms, PFM reforms, and the PRSC framework, including the dialogue on actions and prior actions (policy matrixes).
9. Stronger emphasis on strengthening of downward accountability and involvement of citizens in local decision making and supervision is needed.
10. Furthermore, there is a need for a high policy-level coordination of the overall decentralisation reform process. The Joint Annual Review of Decentralisation (JAR), as undertaken in 2004 and 2005, is a promising initiative, but needs more prominence and follow-up. The Local Government Strategic Framework and LG Investment Plan, developed in late 2005, are also important steps. It is crucial that these initiatives avoid movements in various (conflicting) directions, and involve common initiatives across stakeholders to ensure that decentralisation gets a stronger role in the overall reform process. PEAP3 has highlighted a number of the future challenges, particularly the need to increase LGs' own-source revenues towards a more sustainable system.⁵¹

⁵¹ Poverty Eradication Action Plan (2004/05–2007/08), Ministry of Finance, Planning and Economic Development, p. 118 and p. 235, where it is stated that the LG revenue, as a share of the total LG budget, should increase from 6% in the baseline year, 2002/03, to 9% in 2007/08. With the abolition of the Graduated Tax, it is hard to see how this will be fulfilled.

D1.9 Further along the levels of the evaluation framework, it would be wrong to expect a very mechanical relationship between PGBS and fluctuations in headline poverty, but we conclude that PGBS has been an appropriate way of supporting the GOU's poverty reduction strategy in Uganda. No such strategy is perfect and it can certainly be argued that the strategy has been too heavily weighted towards the delivery of public (mainly social) services. However, this was an obvious starting point and has provided early gains together with lessons of experience that are helping to refine the service delivery strategy itself and also resulting in an increased focus on income-generation, as well as on other important aspects of the enabling environment for poverty reduction. The financial flows of PGBS have been generally supportive of the macroeconomic environment.

D1.10 There have been some unanticipated adverse effects; although significant, they have not been sufficient to outweigh the benefits. These have included increased budget financing costs through sterilisation,⁵² the likely efficiency losses from such a rapid expansion of the level of public expenditure as seen in Uganda; the observed undermining of local government revenues (although there has, as yet, been no similar observation concerning central taxation); and some negative impacts of aid inflows, in part fuelled by PGBS, on the terms of trade and private sector investment. None of these effects is unique to PGBS as a modality. On the other hand, the role of PGBS in facilitating the roll-out of the decentralisation strategy can be counted as an initially unanticipated positive effect.

Strengths and Weaknesses

D1.11 The key strengths of the approach to PGBS in Uganda have been as follows:

- (a) There was a clear and decisive shift in aid instruments towards PGBS in the context of rapidly increasing aid flows, which meant that PGBS doubled as a share of public expenditure while project support declined. This meant that, in financial terms, there was a clear shift in approach among many IPs in the way they provided aid, while there was a commensurate increase in resources being allocated through a strengthening and forward-looking national planning and budget process; in turn this allowed non-marginal overall improvements in allocative and operational efficiency of public expenditure.
- (b) The use of notional earmarking, via the PAF and in sector budget support, allowed MFPEd to reorient allocations to public service delivery in line with its own PEAP priorities, while using government systems and maintaining IP confidence. As part of this, the use of discretionary resources to increase funding to local governments for basic service delivery was also a strength.
- (c) Budget support inputs are increasingly aligned towards the PEAP and sector strategies, which themselves are increasingly aligned with each other.
- (d) The arrangements for coordinated dialogue at cross-sector and sectoral levels, which have facilitated an increasingly coherent dialogue, and allowed donors to support the government's reform agenda. Important aspects include the delegation of sector issues to sector review processes, and the increased selectivity of donors in the dialogue process.
- (e) Conditionality and policy dialogue have been used as instruments to refine, prioritise and monitor policy undertakings in ways that exert managerial pressure and help to maintain the pace of reform; the occasional combination with TA and CB programmes has further added to success.

⁵² But sterilisation costs are associated with aid as such, not budget support in particular. They are attributable to PGBS only insofar as PGBS enabled the aggregate flow of aid to be higher than it would otherwise have been.

D1.12 Meanwhile there have been some weaknesses in the way the budget support instrument has been applied, which detract from its effectiveness:

- (a) The sheer number and lack of standardisation of budget support instruments has two detrimental effects:
- It undermines the incentives provided by PGBS policy dialogue and conditionality to maintain the momentum of the reform programme, and blurs the signals the development community can provide the GOU when government performance is off an agreed track.
 - It creates a degree of uncertainty in planning and financial management, given the lack of alignment with the MTEF and varying disbursements. (Up to now high foreign reserves have smoothed this, but effects could be more serious in a tighter situation.)

It may be argued that, accidentally, this lack of harmonisation among budget support instruments reduces the risk of "herd behaviour" by donors in withdrawing support, and that it thereby has some of the benefits of a graduated response. However, as we explain in Chapter D2, the issue of graduated responses needs to be more purposefully addressed.

- (b) There has been a mismatch between the focus of the cross-sector policy dialogue, and the major areas in which PGBS funds have had their greatest effects. For example, while the focus of dialogue and TA on PFM reform has been on the central level, achievements in service delivery have been mainly at the local government level. This means that the potential complementarity of PGBS inputs has not been fully exploited.
- (c) Although it is increasingly aligned with the PEAP, the broadening scope of the cross-sectoral dialogue with respect to cross-cutting reforms dilutes the effectiveness of that dialogue (attempting to prioritise too much at once). At the same time there is a lack of coherence in key cross-cutting reforms, despite the opportunity presented by the PRSC to address them more strategically. This applies particularly to the coordination of TA/CB with other inputs.
- (d) High turnover of donor staff and a lack of training on the GOU systems they are supporting undermine the quality and value added of dialogue between donors and government.
- (e) Partly for this reason, there has been a tendency for the public expenditure dialogue to be distracted towards headline areas where progress is less likely, at the expense of detailed work on areas where gains could be made. Expenditures on public administration and defence are areas of legitimate donor concern (although not simple), but there has been less donor attention than there could have been to practical aspects of the allocative and operational efficiency of expenditures where progress is more feasible (e.g. the more detailed work on pro-poor expenditures we discussed in Chapter B3).
- (f) The Poverty Action Fund (in the way that it selectively protects particular budget lines) is now increasing rigidity in the budget and undermining the incentives for programmes within the PAF to improve efficiency.
- (g) Some opportunities to reinforce democratic accountability in the budget process have been missed, and some donor actions have tended to undermine domestic accountability.

The Importance of External Factors and Counterfactuals

D1.13 It is important to emphasise that PGBS has only contributed to, but did not create, many of the successes of Uganda in terms of public sector reform and poverty reduction. Four key factors underlie that success:

- (a) Strong political support to poverty reduction and the agenda for reform, including macroeconomic stability, market liberalisation and budgetary reform during the 1990s (which is now somewhat distracted by the political transition).
- (b) Technical leadership in the Ministry of Finance, and a consequently strong and open budget process in the lead-up to budget support. Innovations such as the PEAP, SWAs and the PAF also emanated from this.
- (c) Exogenous factors such as commodity prices and most notably the coffee boom in the 1990s.
- (d) Political and technical support to administrative and fiscal decentralisation, which was embedded in strong legislation prior to the move to PGBS (but which has recently been diluted).

D1.14 Without these factors, the effects of PGBS would have been weaker. Another way of making the same point is to say that the timing of PGBS was fortunate, in two senses: it began when the enabling conditions just noted were favourable; and it coincided with a period of political stability and economic progress that made it easier for IPs to justify and maintain their increased level of support to Uganda. Recent changes in the political climate, the apparent slow-down in poverty reduction and erosion of MFPED's status within GOU suggest that PGBS in the coming years will be a rougher ride.

D1.15 Another important question to ask is whether the achievements we have noted could have been achieved with another mix of aid instruments. First, it is very unlikely that many of the positive effects of PGBS would have been possible using project support. Although projects could have been oriented more towards strategic plans in the context of SWAs, the alignment could not have been as effective. In the absence of policy dialogue and agreed conditionality, the rapid pace of sector and cross-sector reforms could not have been maintained. Moreover, the level of disbursement required is implausible through projects, which are not a good instrument for financing recurrent costs. Even if more project aid had been brought on-budget in the hypothetical no-PGBS scenario, they would not have supported the strengthening of planning and budget systems in the same way. A more plausible means of scaling up disbursements, in the absence of PGBS, would have been through genuinely earmarked budget funding. This would have had higher transaction costs and would most likely have disbursed less reliably than PGBS. Notionally earmarked sector and PAF budget support without a complementary element of full budget support would have been more difficult for GOU to manage efficiently, the effects on PFM reform would have been less pronounced, and it would not have provided such an effective entry point for addressing systemic and cross-sector reform issues.

D1.16 We have noted that the pre-existence of fiscal discipline and government commitment to economic liberalisation were important enabling factors for PGBS. In turn, PGBS, by increasing resources available, and by reinforcing the domestic credibility of MFPED and BOU, has helped to sustain macroeconomic and fiscal discipline and allow market-oriented policies to become more embedded.

Conclusion

D1.17 Our overall assessment of PGBS is therefore positive. It has been an efficient and effective means of delivering aid which has contributed to poverty reduction by supporting a national poverty reduction strategy. It has been most effective when flow-of-funds effects have combined with policy and institutional effects. Certainty about effects and their attribution is less at later stages in the causality chains, where influences are multiple and causality is therefore more complex. Nevertheless it is clear that PGBS has helped to finance a rapid expansion of basic public services, fuelling decentralisation in the process. At the same time it has supported a strengthening of public management systems and reinforced generally benign economic management.

D1.18 PGBS has also shown an ability to reflect and evolve, which augurs well for sustainability. However, a divergence of interests between the incumbent government and donors, and a decline in the relative strength of MFPED, may make relationships more difficult in future.

D1.19 PGBS has significant external effects in improving the environment in which other aid instruments are implemented. Its characteristic effects would not have been achieved by earlier forms of programme aid, nor through reliance on project-earmarked aid alone. However, as we shall discuss in the next chapter, achieving an appropriate balance between modalities is one of the main challenges ahead.

D2. PGBS in Uganda – Future Prospects

Introduction

D2.1 This evaluation has been completed at a difficult time in donor–GOU relations and some may find our positive assessment of PGBS in Uganda at odds with the atmosphere in early 2006. This report, with its annexes, lays out the evidence we assembled. Our conclusions are based on a systematic review of that evidence, following a methodology which is exceptionally rigorous. This led us to the positive (though by no means unqualified) assessment of PGBS expressed in Chapter D1. Yet the present situation in Uganda (the severe tensions between many IPs and the incumbent government) does point to a central dilemma that PGBS faces. On the one hand, it is intended as a long-term partnership able to support processes of institutional development and reform in ways that previous, more fragmented and didactic forms of aid have struggled to achieve. On the other hand, it appears especially vulnerable to changes in the political climate, both within Uganda and among IPs. A central challenge for the PGBS donors is to find practical ways to resolve this paradox. In this chapter we identify some of the factors that will influence the prospects for PGBS in Uganda in the coming years, and suggest how donors and the government of Uganda should respond.

Context

D2.2 The factors that motivated PGBS in the first place continue to be relevant, and some may be reinforced. Insights into the futility of coercive conditionality remain valid. So do the analysis of the costs, lack of sustainability and potential damage to national capacity inherent in unharmonised supply-driven aid. OECD donors are committed to providing more, as well as more effective, aid.⁵³ Budget support features strongly in plausible strategies for scaling up aid. On the other hand, international concerns for better governance and for human rights will not diminish.

D2.3 Within Uganda, PGBS will need to adapt to a less favourable political and institutional environment. It appears that the areas where IPs and the GOU are unable to find common ground are increasing, and there is less congruence at the political level between NRM regime objectives and those of the donors. (Several observers have commented that this is not unusual; it was the previous high degree of harmony between IPs and the NRM regime that was exceptional.) The 2006 presidential and parliamentary elections will be a particularly testing time. Simultaneously there is need for IPs to adapt to an institutional environment where their principal point of engagement is no longer the Ministry of Finance, and where MFPED may struggle to maintain its authority in the context of a more constrained budget, a diminution of political support from the higher reaches of government, and a possible threat to the integrity of the budget (if resource allocation responsibilities are transferred to the National Planning Authority).

The Challenge

D2.4 The challenge in this more uncertain environment is to adapt PGBS instruments to achieve a balance between their role as a support for long-term development strategies, and the need to be responsive to performance, including, at times, political issues that may threaten the relationship. A first concern for IPs should be to protect the gains that PGBS has supported thus

⁵³ The Paris Declaration (High Level Forum 2005) is the most recent commitment to more effective aid.

far – particularly the exceptionally coherent resource management system, the link between policy and budgeting that has been developed, the transparency that accompanies PGBS and the ability to maintain the demand for continuing improvements in PFM standards and accountability. The danger is that a series of individual decisions by IPs could lead to an unravelling of the aid management system that has developed. The principle of graduated responses is relevant here, and should be seen not as a purely PGBS issue but as part of the challenge of aid management strategy for both government and donors.

D2.5 What is required is long-term predictability from IPs in delivering a coherent package of aid linked to the implementation of the PEAP, which provides clearer and more consistent signals to the GOU. In addition there should be a more strategic review, by IPs with the GOU, of the sustainable medium-term and long-term expenditure requirements for each main sector, given macroeconomic constraints, with explicit attention to the appropriate balance between aid instruments in the sector. This has implications for both the GOU and donors.

- For the GOU: the Partnership Principles are important, not least in their assertion of GOU responsibility for aid management and coordination. The GOU's "order of preference" for different modalities is rational, but GOU policy on aid instruments could usefully be fleshed out to specify more clearly in what circumstances different modalities are more appropriate, and also what are the good practice features of each modality in the Ugandan context. The decision to include project aid within MTEF ceilings is logical, but will force issues concerning the costs and benefits of project aid to the surface, and pose dilemmas for GOU stakeholders as well as donors.
- For donors: an important lesson from Uganda's experience is that boundaries between aid modalities are not as clear-cut as sometimes supposed. There is practical utility in devices like notional earmarking, linked to high levels of transparency and consultation in budget formulation and monitoring. The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies, and aid strategies should seek to ensure that one instrument is not more vulnerable than another to short-term cuts.
- For the GOU and IPs jointly: a need to address the emerging issues of economic growth strategy together with the absorptive capacity for aid, and the appropriate balance between aid modalities in each sector; linked to this should be a rationalisation of budget support instruments. In particular IPs should seek to link their commitments more effectively with the rolling planning framework of the MTEF. They should consider upstream co-financing of different types of budget support – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.
- Building on the valuable articulation between overall and macro dialogue and sector level processes, the GOU and IPs should work towards developing "sector" strategies for PFM, public service reform and local government reform and delegate detailed dialogue on those issues to dedicated forums.

D2.6 More detailed recommendations and their links to the findings of this study are spelt out in the final chapter.

D3. Summary of Conclusions and Recommendations

Introduction

D3.1 In this final chapter we summarise our recommendations and show how they relate to the findings and conclusions of the study. Principal recommendations are listed thematically below; then, in Table D3.1, we show how the recommendations relate to our findings and conclusions.

D3.2 The Inception Report (see IR ¶3.3) noted the importance of distinguishing between: *findings* (facts), *conclusions* (interpretation of the facts, drawing on the judgement of the evaluators) and *recommendations* (reasoned advice based on the evaluation findings and conclusions).

The matrix in Table D3.1 below is designed to summarise the recommendations of the Final Country Report in Uganda, and in so doing to demonstrate the links from findings to conclusions to recommendations.

D3.3 The matrix covers sequentially all chapters in Part B and Part C of the report (these are the rows of the matrix). The first column presents for each chapter a brief summary of the findings. Conclusions in the second column are referenced to the relevant paragraphs in the chapter reviewed. Recommendations, in the third column, have been referenced to the summary list of recommendations.

D3.4 The last column indicates who should be responsible for implementation of the recommendations. The timeframe for this to happen is also suggested, with the following key:

- I means for immediate action;
- ST means for action in the short term, that is, roughly, six months to a year;
- MT means for action in the medium term, that is, will take more than a year.

Summary List of Recommendations

Safeguarding long-term stability

- R1 The GOU and IPs should try to ensure that the overall relative shift towards PGBS is maintained.
- R2 IPs should develop safeguards against a rapid and destabilising withdrawal of PGBS.
- R3 IPs should move towards a graduated response mechanism which provides credible incentives for performance and long-term predictability, protected from short-term political cuts.
- R4 IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS.
- R5 IPs should provide aid information in line with the MTEF and budget cycles and make rolling three-year commitments for GBS and other aid.
- R6 The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies; and aid strategies should ensure that one instrument is not disproportionately more vulnerable than another to short-term cuts.

Design of aid and PGBS instruments

- R7 The GOU needs to develop a more elaborate aid policy (beyond the order of preference of aid instruments given in the Partnership Principles), instead highlighting the roles, and the good practice design features, of different aid instruments.
- R8 A set of operational principles and guidelines for PGBS should be developed, and IPs should adhere to these guidelines.
- R9 In this context the balance between instruments in each sector should be reviewed.
- R10 Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.
- R11 The GOU and IPs should agree a common disbursement schedule for all PGBS (one or two tranches a year) and stick to it.

The focus of dialogue and conditions

- R12 Continue to develop sector-style processes for strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, public sector reform, PFM), and in sectors without SWAp processes.
- R13 The PRSC dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it.
- R14 IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible.
- R15 Continue to increase the profile of productive and private sector issues, including the expansion of growth-promoting initiatives.
- R16 Continue to shift attention in the dialogue towards service quality and income generation.

Accountability

- R17 The GOU and IPs should develop a strategy for building accountability systems to domestic stakeholders which reflect domestic democratic interests yet also satisfy IP demands.
- R18 Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.
- R19 Take care to ensure that policy processes provide room for the voices of domestic constituents, including Parliament as well as civil society, to be heard in the dialogue.

Capacity development and focus

- R20 In the context of “sector” processes in cross-cutting areas such as PFM, decentralisation and public sector reform (see above):
 - (a) Develop capacity-building strategies for reform in these areas.
 - (b) Align TA/CB and other institutional support to these strategic plans.
- R21 Increase the relative focus on systemic PFM issues at local government level.
- R22 At sector level, shift the balance more towards building capacity of service providers, not just continued service expansion.
- R23 Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity.

Using PGBS efficiently

- R24 MFPED should reinvigorate the budget challenge to promote efficiency.
- R25 The definition of pro-poor expenditures should be revisited regularly so they do not stagnate.
- R26 Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives
- R27 Assess Uganda's long-term absorptive capacity for aid, and investigate the efficiency of GOU sterilisation choices.
- R28 Ensure that monitoring covers implementation activities and intermediate results as well as final outcomes.

Donor selectivity

- R29 Donors should be sensitive to the role conditions can usefully play, and choose conditions where signals are needed and success is likely.
- R30 Donors should improve their capacity to engage fruitfully in the dialogue, e.g. by:
 - (a) focusing on fewer sectors and issues of engagement;
 - (b) ensuring more consistency and coherence in policy across sectors;
 - (c) making more use of delegated cooperation;
 - (d) maintaining staff in post for longer;
 - (e) giving staff early training on the details of how Uganda's systems work;
 - (f) developing greater understanding of the political economy of reforms.

Table D3.1: Summary of Findings, Conclusions and Recommendations

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ1. Relevance of PGBS</i></p> <ul style="list-style-type: none"> • Overall the many different designs of PGBS have been fairly responsive to the specific conditions of Uganda, and they have adapted to the evolving PRSP and sector priorities. However, the original design was perhaps too optimistic about governance issues and there was a bias towards the social sectors, with productive issues emerging later. • Much of the PGBS dialogue used pre-existing sector and budgetary forums, with the PRSC steering committee being the main addition. Conditionality has been increasingly focused on government policies and plans. Despite being well structured there are gaps where dialogue and conditionality could have helped foster reforms, while the dialogue often gets dominated by issues where progress is unlikely. Meanwhile inaccurate assumptions about the level of government ownership of policies and plans are made by IPs, which are increasingly technocratic, and less political. • The PEAP (whose subsequent iterations became the PRSP) and sector strategies, which were again initiated before the move to PGBS, meant there was a strong framework of poverty reduction objectives to which PGBS could be aligned from the outset. Although the GBS design responded to many of the weaknesses in aid instruments in terms of alignment towards government objectives and harmonisation with government systems, there is still a degree of incoherence and inconsistency in design across donors. 	<ul style="list-style-type: none"> • Governance not explicitly addressed early on and dealt with in a reactive way since (¶B1.19). Conditionality mostly plays a role of exerting managerial pressure on government institutions, helping to maintain the pace of reform, but does not play a political role (¶B1.21). • Although positive in terms of alignment, there is an over-optimistic assumption that all actions in the PEAP are owned, while there is reduced political ownership (¶B1.23). • Well-structured and increasingly realistic dialogue (¶B1.20) is undermined by the limited capacity of donors to engage in it meaningfully (¶B1.24), partly because of inconsistency within donor agencies – e.g. between sector and general staff approaches (¶B1.29). • GBS is well aligned with the GOU's strategies to reduce poverty (¶B1.25). • The early bias towards the social sectors has made it difficult to address productive issues and local delivery issues later on (¶B1.26). • Incoherence in the design means the consequences if conditions are not met are unclear (¶B1.31). 	<ul style="list-style-type: none"> • Understand the role of conditions, and choose conditions where success is likely, or signals needed (R29). • Donors improve their capacity to engage in the dialogue (see below – e.g. selectivity, long-term, training) (R30). • A set of operational principles and guidelines for PGBS should be developed (R8). • Move towards a graduated response mechanism, which provides credible incentives for performance and long-term predictability, protected from political decisions (R3). 	<ul style="list-style-type: none"> • GOU + IPs (ST) • IPs (ST) • IPs + GOU (ST) • IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ2. Harmonisation and alignment</i></p> <ul style="list-style-type: none"> The alignment of PGBS towards GOU objectives and targets set out in the framework of the PEAP and sector strategies has been strong, and given the large relative and absolute increases in PGBS this has had a strong effect of alignment of IPs towards GOU objectives. PRSC and sector conditions are not always directly drawn from government policies, although the GOU is always involved in their selection. MFPED played a strong role in aid coordination early on, and the GOU and donors have increasingly used joint analytical work, although there has been limited improvement in the management of TA and CB support. Alignment of PGBS with the budget cycle is not strong, as commitments are not aligned with the GOU's medium-term and long-term planning horizon, and in-year disbursements vary across donors. PGBS has, automatically, contributed strongly to the increased use of government implementation systems, although recent increases in project support are threatening to undermine this. 	<ul style="list-style-type: none"> A relative and absolute shift to PGBS has contributed significantly to increased alignment of ODA to GOU objectives (¶B2.4) and use of GOU systems for implementation (¶B2.9). PGBS has made little change to the delivery of TA and CB although some is linked via the dialogue (¶ B2.12). PGBS is fragmented and not fully harmonised (¶B2.11). A lack of common operational principles of budget support has undermined alignment with the government budget process, and harmonisation across instruments. 	<ul style="list-style-type: none"> The GOU and IPs should try to ensure that the relative shift towards PGBS is maintained (R1). IPs should provide aid information in line with MTEF/budget cycle and make rolling three-year commitments for GBS and other aid (R5). Flesh out aid policy to highlight role of instruments, not just order of preference (R7). 	<ul style="list-style-type: none"> GOU + IPs (ST) IPs (ST–MT) GOU (ST–MT)

General Budget Support in Uganda

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ3. Public expenditures</i></p> <ul style="list-style-type: none"> PGBS funding has contributed 31% of the real increase in public expenditures between 1997/98 and 2003/04, when pro-poor expenditures increased from 19% to 36% of the budget. PGBS has been effective in increasing the discretionary funding on-budget, even when a substantial proportion has been notionally earmarked under the Poverty Action Fund, as GOU was able to influence where that funding was earmarked to. PGBS has provided a long-term predictable source of budget financing, while short-term unpredictability (which has recently improved) has been buffered by MFPED through the increased stock of reserves. PGBS has contributed to both allocative efficiency, through the shift to pro-poor expenditures under the Poverty Action Fund, and operational efficiency, as an increased share of sector budgets is being channelled to service providers and there has been a relative decline in public administration expenditure, although the rapid increases in public expenditure may have weakened the incentives to improve efficiency. The definition of pro-poor expenditures in the Poverty Action Fund is narrow, and inflexible, which may undermine effectiveness. There is also evidence that transaction costs for administering PGBS are relatively lower than for project support. 	<ul style="list-style-type: none"> By providing external resources on budget (¶B3.13), PGBS has had a strong effect on the level of pro-poor expenditures (¶B3.10) and the share, where notional earmarking via the Poverty Action Fund added momentum. PGBS has been a long-term predictable source of budgetary resources, and has been increasingly predictable over the short term as well (¶B3.20). PGBS has had a moderate effect on allocative and operational efficiency (¶B3.22) and in the reduction of transaction costs (¶B3.24). 	<ul style="list-style-type: none"> MFPED should reinvigorate the budget challenge to promote efficiency (R24). The definition of pro-poor expenditures should be revisited regularly so they do not stagnate (R25). Agree a common disbursement schedule for all PGBS (one or two tranches a year), and stick to it (R11). 	<ul style="list-style-type: none"> GOU (MT) IPs + GOU (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ4. Planning and budgeting systems</i></p> <ul style="list-style-type: none"> • A strong, MFPED-led, budget process pre-dated the move to GBS; however, the additional on-budget resources provided by GBS meant that domestic stakeholders, including Parliament, take sector strategic planning and budget processes even more seriously, as they were seen as a route to increasing sector funding. • The influence of PGBS on accountability has been mixed. In some areas there are signs of increased accountability through sector review processes and greater involvement of Parliament in the budget process. However, donors often dominate the dialogue at the expense of domestic stakeholders, and get distracted by issues where progress is unlikely. • So long as strong leadership remains in MFPED, these improvements are likely to be sustained, although there is evidence that a combination of Poverty Action Fund rigidities, an increasingly routine budget process and perceptibly weaker budget challenge may undermine the future efficiency of public expenditure. • TA/CB linked to PGBS has helped improve PFM systems but effectiveness has been limited, as it has not been strategic, or sufficiently linked to a coherent reform programme. Most focus has been on central government PFM and not on local governments, where expansion on basic services has taken place. 	<ul style="list-style-type: none"> • A relative and absolute shift to PGBS has increased the attention spending institutions and Parliament pay to the budget support process (¶B4.7). • Improvements in accountability are often inadvertently undermined by IP actions (¶B4.12). • TA/CB inputs linked to PGBS have supported PFM improvements but they have not been systematic or strategic, and the quality of the dialogue has been poor (¶B4.16). • Complementarity of PGBS inputs has not been maximised, as the relative focus of PFM reform has been at the centre, despite the large increases of funding to local governments (¶B4.18). 	<ul style="list-style-type: none"> • Maintain the relative change in the mix of aid instruments (R1). • Develop a strategy for building accountability systems to domestic stakeholders, which also satisfies IP demands (R17). • Develop a strategy (not project proposal) for PFM reform. Align TA/CB to PFM with this plan (R20). • Increase the relative focus on systemic PFM issues at LG level (R21). 	<ul style="list-style-type: none"> • IPs (ST–MT) • IPs + GOU (MT) • GOU (ST) • GOU + IPs (ST–MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ5. Policies and processes</i></p> <ul style="list-style-type: none"> Uganda has a particularly well developed set of policy processes at the sector level many of which pre-dated PGBS, and increasingly so in crosscutting areas of reform such as decentralisation and PFM. However the political ownership of these processes has weakened. PGBS and non-PGBS IPs are participants in policy making at the sector and cross sector levels. At first there was a strong coincidence of interests between the President, MFPED and the IPs, but this coalition is increasingly fragile. Where the quality of dialogue is good, this has played a positive role in policy processes. Donor influence was partly responsible for the involvement of a wider range of stakeholders, including civil society, in policy processes; although some question its meaningfulness. Processes are often adaptive to circumstances and constraints, including political decisions such as free healthcare. While cross-cutting processes are less well developed, the policy dialogue and conditionality helped protect some of the ongoing reform processes in PFM and decentralisation from opponents, and maintain the pace of reform. Sector policies and public expenditures are particularly explicitly linked in Uganda, and the Long Term Expenditure Framework has added a long-term perspective. However, policies have often been public-sector-dominated and neglected the role of the private sector, although these issues are increasingly prominent. 	<ul style="list-style-type: none"> The success of policy reforms has relied on a coalition of interest between the presidency, MFPED and IPs, which is now weakening (¶B5.5). Sector policy processes in Uganda are particularly well developed, as are the processes of dialogue supporting it (¶B5.5). PGBS has fostered greater participation in policy dialogue, although those participating often do not feel they have voice (¶B5.5). The policy agenda has been dominated by the public sector although productive and private sector issues are increasingly being taken up (¶B5.12). On balance dialogue and conditions relating to PGBS have a positive role in refining policy content and providing impetus for reforms. (¶B5.12, ¶B5.13). There is a particularly strong link between policies and public expenditures, especially in those sectors with SWAps (¶B5.13). 	<ul style="list-style-type: none"> Continue to develop sector-style processes of strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, PFM), and in sectors without SWAp processes (R12). Greater understanding of the political economy of reforms should be developed (R30). Try to ensure policy processes provide room for domestic constituents in the dialogue (R19). Continue emphasis on dialogue about private and productive sector issues (R15). 	<ul style="list-style-type: none"> IPs (MT) IPs (ST–MT) IPs + GOU (MT) IPs + GOU (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ6. Macroeconomic performance</i></p> <ul style="list-style-type: none"> The foundations for Uganda's strong macroeconomic performance had been laid before the new GBS, and BOP support was crucial to this. PGBS has facilitated the maintenance of fiscal discipline through providing a long-term source of foreign exchange; a dialogue on macroeconomic issues with the IMF continues and PGBS disbursements are usually tied to Uganda remaining on track with the IMF. Increases in aid, and PGBS insofar as it has facilitated a rapid expansion in aid, have contributed to an increase in the costs of budget financing, as the GOU has chosen a sterilisation strategy which favours issuing domestic debt relative to selling foreign exchange. This strategy has been chosen because of concerns over the effect of high aid flows on export growth. Higher interest rates as a result of this strategy are likely to have a detrimental effect on the private sector. Overall, however, both private sector investment and export growth (in terms of volume at least) have been buoyant, indicating that aid-fuelled increases in public expenditure have not excessively crowded out private sector growth. Although domestic revenues are low, they have been growing as a proportion of GDP and there is no evidence to suggest that PGBS is having a negative effect. There is strong commitment politically and within MFPED and BOU to the maintenance of fiscal discipline and macroeconomic stability, which PGBS has supported, but not caused. 	<ul style="list-style-type: none"> Macroeconomic stability preceded PGBS, but PGBS has facilitated the maintenance of fiscal discipline through provision of long-term finance (¶B6.17), although a rapid withdrawal of PGBS would, however have a destabilising effect on the situation. Aid and PGBS have contributed to an increase in the cost of budget finance due to GOU's chosen sterilisation strategy (¶B6.20). There is little evidence to suggest that PGBS-fuelled increases in public expenditure have significantly crowded out private sector growth, or undermined domestic revenue collection (¶B6.22 and ¶B6.24). Strong political and institutional commitment to macroeconomic stability, which was present prior to PGBS, has been reinforced by PGBS (¶B6.26). 	<ul style="list-style-type: none"> Donors provide safeguards against a rapid withdrawal of GBS (R2). Assess long-term absorptive capacity of aid, and investigate the efficiency of GOU sterilisation choices (R27). 	<ul style="list-style-type: none"> IPs (ST) IPs + GOU (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ7. Delivery of public services</i></p> <ul style="list-style-type: none"> PGBS funding has accelerated increases in the quantity of basic services delivered by local governments from which the poor have undoubtedly benefited, although the targeting of those services is not always pro-poor. The quality of services in health and education is very weak, and has yet to recover from the abolition of user charges. Through its flexibility, PGBS has also allowed more efficient and effective resource allocation for service delivery. This manifests itself in the extent to which the GOU has been able to expand expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending. The PAF facilitated this, and the notional earmarking of PGBS to PAF and sectors helped accelerate the change. Decentralisation has been a key reform and through facilitating increased transfers to local governments PGBS funds have helped to strengthen new institutional relationships in service delivery and building institutional capacity in local governments. However, conditional grants have given LGs limited autonomy, which has undermined the responsiveness of those services. There has been limited focus on local accountability issues, and strengthening service delivery institutions, beyond increasing the inputs available to them. This in part is due to the fact that TA/CB have been weakly oriented towards these areas. 	<ul style="list-style-type: none"> PGBS has facilitated a huge expansion in basic service delivery by local governments, and the poor have benefited from that expansion, but the quality of services is very weak (¶B7.13). Local governments have been empowered by increases in funding, but PGBS funding has been biased towards increasing the supply of inputs, while TA/CB have not been focused on building responsive and sustainable provider institutions (¶B7.20). 	<ul style="list-style-type: none"> There needs to be a drive to ensure quality of existing services, and focus on building the capacity of service delivery institutions, not only continued service expansion (R16). TA/CB need to be oriented towards building capacity of service providers (R22). Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity (R23). 	<ul style="list-style-type: none"> GOU (ST–MT) IPs + GOU (ST–MT) IPs + GOU (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ8. Poverty reduction</i></p> <ul style="list-style-type: none"> • PGBS has made a major and efficient financial contribution to the expansion of service delivery that the poor have been able to access, although weak quality is undermining the benefit accrued from those services. • PGBS funds have supported a generally positive macroeconomic environment which has supported income growth; beyond this, PGBS influence is limited. Non-financial inputs have fostered policy review, which has highlighted the need to pay more specific attention to service quality and income poverty in future. • PGBS has supported decentralisation which is intended to encourage participative decision making; however, the impact on empowerment of the poor is not conclusive. There have not been significant improvements in the administration of justice or human rights, and conflict in the north of Uganda has received limited attention. • The early domination of the social-service-driven agenda has limited the room for financing public sector action which promotes income generation and growth. 	<ul style="list-style-type: none"> • The major contribution of PGBS to poverty reduction has been through the expansion of basic services (¶B8.8). • The effects of PGBS on income poverty have been far weaker, and indirect, through facilitating macroeconomic stability which in turn fosters growth (¶B8.9). • There is little discernible effect of PGBS on empowerment and the administration of justice (¶B8.11). 	<ul style="list-style-type: none"> • Continue to shift attention in the dialogue towards service quality and income generation (R16). 	<ul style="list-style-type: none"> • IPs + GOU (ST–MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>EQ9. Sustainability</i></p> <ul style="list-style-type: none"> • The scope for involvement of IPs in policy processes and the nature of those processes at the sector and cross-sector levels provide substantial scope for shared learning; however, short institutional memory on the side of IPs undermines this somewhat. • In Uganda there are mechanisms for monitoring the three main flows of GBS; however, there is an imbalance in monitoring the intermediate levels in the results chain. Expenditure-level and outcome-level monitoring are improving, but routine data collection on the direct results of public sector action is limited, and this limits the scope for evidence-based decision making. • Systems for providing feedback through sector review mechanisms and the PRSC steering committee are well established. However, the apparent reduction in political involvement in these processes does not augur well for sustainability. In addition concerns about political transition and corruption make it harder for IPs to justify aid, and PGBS because of its un-earmarked nature, to domestic constituents. 	<ul style="list-style-type: none"> • Dialogue allows plenty of scope for shared learning, but IP institutional memory is short. (¶B9.8). • Inadequate monitoring of intermediate results means the information available for policy making is unbalanced (¶B9.11). • Adequate forums now exist to provide stakeholders with feedback (¶B9.14). • Weakening political ownership, combined with concerns of political transition and corruption, is making it increasingly difficult for IPs to justify GBS to domestic constituents (¶ B9.14). 	<ul style="list-style-type: none"> • Reduce the turnover of donor staff, and train them on GOU systems (R30). • Ensure routine information on intermediate results integrated into decision making (R28). • IPs need to develop a greater understanding of the political economy of reforms being sponsored in the dialogue (R30). • The objectives and uses of PGBS must be clearly signalled alongside other instruments to retain political support of home constituencies. Aid strategies should ensure that one instrument is not more vulnerable than another to short-term cuts (R6). 	<ul style="list-style-type: none"> • IPs (ST) • GOU (ST–MT) • IPs (ST) • IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>PART C C1. Policy CCI</p> <ul style="list-style-type: none"> Gender issues are addressed and mainstreamed more systematically in Uganda than in many countries and existing government structures have been used rather than parallel structures. The PEAP dialogue has embraced dialogue on gender, and there is a donor group which deals with gender issues, and engages on these matters. Uganda was one of the first countries, with a strong political lead, where HIV/AIDS prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP, and there is controversy over the extent to which global funds can be accepted, given the government's macroeconomic ceiling. Environment issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001. PRSCs have included actions relating to strengthening environmental institutions, however they remain weak and are lent limited budget priority. The PRSC has been used more to support environmental policy than for explicit gender or HIV/AIDS initiatives. For HIV/AIDS and environment there are strong elements of project support. 	<ul style="list-style-type: none"> The structure of dialogue which has been reinforced by PGBS provides valuable opportunities to mainstream CCIs in sector and budget discussions (¶C1.13). Political will tends to be the overriding factor as to whether a crosscutting issue is actually addressed (¶C1.13). There are important interactions between different modalities in addressing CCIs (¶C1.13, ¶C4.9). 	<ul style="list-style-type: none"> The PRS dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it. (R13). More explicit attention is needed, generally and at sector level, to devising an appropriate balance between aid modalities (R9). Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector (R10). 	<ul style="list-style-type: none"> GOU + IPs (MT) GOU + IPs (ST–MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>C2. Public and private sector issues</i></p> <ul style="list-style-type: none"> • There was an early bias in PGBS towards social sector service delivery in terms of dialogue and funding. The PAF and SWAps combined with notional earmarked budget support contributed to the skewing of budget allocations towards the social sectors. • Dialogue relating to the productive sector now has a higher profile, but the expansion of initiatives such as the Agricultural Advisory Services is constrained by the decision to limit the growth of public expenditures, due to concerns of crowding out the private sector. 	<ul style="list-style-type: none"> • PGBS initially had a public sector bias, only recently giving emphasis to the productive sectors (¶C2.2 and ¶C2.4). • It has subsequently proved difficult to expand public sector programmes which are oriented towards agriculture and the private sector. (¶C2.11) 	<ul style="list-style-type: none"> • Continue to increase the profile of productive and private sector issues (R15). • Review the definition of pro-poor expenditures eligible for the PAF (R25). • Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives (R26). 	<ul style="list-style-type: none"> • GOU + IPs (MT) • GOU + IPs (MT) • GOU + IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>C3. Government capacity and capacity building</i></p> <ul style="list-style-type: none"> PGBS has supported improving capacity, mainly through the empowering effects of the flow of funds, and strengthening policy and budgeting systems. TA and CB have been the least well specified inputs of PGBS, and have been uncoordinated and fragmented. Capacity building with respect to PFM is central to PGBS, yet support has been weakly coordinated, although there are signs of improving collaboration among donors. Given their responsibility for basic services, local government capacity is also important. Again the flow of PGBS funds has contributed most. Innovative approaches to CB include linking funding to capacity assessments, and the recent introduction of standardised training curriculums. However, the effect on service delivery remains indirect. Meanwhile approaches to TA/CB support to local services within sectors is varied, with some sectors strengthening local government systems, and others bypassing them. There has been limited progress in other important capacity-related issues, such as pay reform, despite priority in the PRSC dialogue, due to lower bureaucratic and political support. 	<ul style="list-style-type: none"> Capacity development has not been very systematically addressed by PGBS (¶C3.1). The flow of PGBS funds has had the greatest impact in capacitating government (¶C3.3 and ¶C3.4). Capacity support for PFM has been weakly coordinated in the PGBS era, although there are recent signs of greater collaboration (¶C3.3). Innovative approaches to LG CB, married with the flow of PGBS funds, have had some success, although service providers remain weak (¶C3.6). Despite prominence in the PRSC, there has been inadequate backing and progress in pay reform (¶C3.11). 	<ul style="list-style-type: none"> The GOU develops improved strategies for institutional CB for PFM, local governments, and service delivery. Donors align TA/CB to this (R20). 	<ul style="list-style-type: none"> GOU (ST-MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>C4. Quality of partnership</i></p> <ul style="list-style-type: none"> On balance, Uganda supports the contention that PGBS conditionality is qualitatively different from earlier structural adjustment approaches. Agreed conditions serve as information signals to constituents, and provide impetus to technical reforms, they do not simply "buy reform" or "make things happen". The quality of dialogue and appropriateness of conditions are undermined by the weak capacity of IPs to engage in the dialogue, exacerbated by the high turnover of donor staff. As GBS is disbursed using government systems, it costs less to administer, and joint PRSC and sector dialogues reduce duplication, although they can be unwieldy. However, increases in project support mean that transaction costs, in aggregate, may not be falling. The interplay of aid modalities is a key issue in Uganda. There is significant complementarity between modalities, and all donors use some mix of instruments. The scale of the shift to PGBS was, however, crucial in its success, while the persistence of parallel projects undermines the efficiency of PGBS. Different sectors have widely differing mixes of project and on-budget financing; however, there is no systematic policy on the role of different instruments. 	<ul style="list-style-type: none"> There is evidence of a qualitative shift in conditionality, but its appropriate role is not always understood (¶C4.5). IPs often do not have the capacity to engage in meaningful dialogue (¶C4.6). A relative shift to budget support did reduce transaction costs, but recent increases in project support are undermining this (¶C4.7). The interplay of PGBS with other instruments shows significant complementarities, but parallel project funding also reduces the efficiency of PGBS (¶C4.10). The significance of this varies between sectors, which face different configurations of GOU and IP interests. The recent decision to integrate projects within budget ceilings will present a challenge in this respect to both GOU and IP stakeholders in each sector (¶C4.13, ¶C4.14). 	<ul style="list-style-type: none"> IPs ensure low turnover of staff, who should be trained on GOU systems before they start work (R30). IPs should develop capacity to understand political aspects of reform (R30). IPs should focus on fewer sectors and use more delegated cooperation (R30). An explicit policy on the role of different instruments should be developed, and the balance between instruments in each sector should be reviewed (R7, R9). Ensure that one instrument is not more vulnerable than another to short-term cuts (R6). 	<ul style="list-style-type: none"> IPs (MT) IPs (MT) IPs (MT) GOU (ST) IPs (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><i>C5. Political governance and corruption</i></p> <ul style="list-style-type: none"> • "Governance" covers a spectrum of political and technical issues which have become increasingly important in the relationship between GOU and IPs over recent years. • Many aspects of governance, including human rights, are addressed in the PEAPs, but political ownership of the PEAPs has been diminishing. Efforts by bilateral donors to raise governance concerns through a "governance matrix" have had limited success. At the same time, the potential for political crises to undermine the relationship seems to be increasing. • Corruption is especially corrosive of IP support for PGBS, but there has been more success in strengthening basic PFM systems and increasing transparency than in high-profile anti-corruption legislation. • Many of the reforms and capacity improvements supported by PGBS are equally relevant to the accountability requirements of domestic stakeholders as well as IPs. 	<ul style="list-style-type: none"> • Performance against governance criteria is difficult to measure objectively, but there has been a growing gap between GOU performance and IP expectations (some of which were based on an initial misreading of Ugandan politics) (¶C5.6–C5.7¶). • PGBS offers opportunities for engagement with GOU on a range of governance issues, but it cannot buy governance reforms that threaten key political interests (¶C5.11). • It should not be assumed that PGBS is automatically more vulnerable to corruption than other forms of aid. Safeguards in delivery of PGBS are important, but it also offers opportunities to strengthen GOU fiduciary systems (¶C5.15). • There is need for realism about the scope and pace of reforms that can be achieved through essentially technocratic means (¶C5.16). 	<ul style="list-style-type: none"> • IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible (R14). • IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS (R4). • Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns (R18). 	<ul style="list-style-type: none"> • IPs (MT) • IPs (MT) • IPs (MT)

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