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December 31, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Uganda—Poverty Reduction Strategy Paper—Annual Poverty Eradication Action Plan Implementation Review**

Attached for the **information** of Executive Directors, on the annual poverty eradication action plan implementation review prepared by the government of Uganda. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Uganda indicating whether or not they consent to the Fund's publication of this paper; such a communication may be received after the the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Nord (ext. 34803), Mr. Saenz (ext. 35408), and Mr. Gershenson (ext. 39618) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 12, 2009; and to the African Development Bank, the Common Market for Eastern and Southern Africa, the European Commission, the Food and Agriculture Organization, the Islamic Development Bank, the Organisation for Economic Cooperation and Development, and the United Nations Development Programme.

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# Government of Uganda

# The 2006 Annual PEAP Implementation Review: Main Report

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## Abbreviations and Acronyms

| | |
|---|---|
| **ACDO** | Assistant Community Development Officer |
| **ADF** | Allied Democratic Forces |
| **AgDP** | Agricultural GDP |
| **AIDS** | Acquired Immune Deficiency Syndrome |
| **ANC** | Antenatal care |
| **APIR** | Annual PEAP Implementation Review |
| **ARI** | Acute Respiratory Illnesses |
| **ART** | Anti Retroviral Therapy |
| **ASTU** | Anti Stock Theft Units |
| **BFP** | Budget Framework Paper |
| **BTTB** | Background to the Budget |
| **BTVET** | Business Technical Vocational Educational and Training |
| **CAA** | Civil Aviation Authority |
| **CAADP** | Comprehensive Africa Agricultural Development Programme |
| **CBD** | Community Based Distributors |
| **CDD** | Community based drug distributor |
| **CDWs** | Community Development Workers |
| **CEEWA** | Council for Economic Empowerment for Women of Africa |
| **CFM** | Collaborative Forestry Management |
| **CHOGM** | Common Wealth Heads of Government Meeting |
| **COMESA** | Common Market for Eastern and Southern Africa |
| **CPR** | Contraceptive Prevalence Rate |
| **CSOs** | Civil Society Organisations |
| **DAR** | Development Assistance for Refugees |
| **DCI** | Development Consultant's International |
| **DDMC** | District Disaster Management Committee |
| **DFID** | Department for International Development |
| **DP** | Development Partner |
| **DPT** | Diphtheria-Tetanus-Pertussis |
| **DRC** | Democratic Republic of Congo |
| **DTIS** | Diagnostic Trade Integration Study |
| **DWD** | Department for Water Development |
| **DWSCG** | District Water and Sanitation Conditional Grant |
| **EA-FTA** | East African Free Trade Area |
| **EHAP** | Emergency Humaritarian Action Plan |
| **EIU** | Economist Intelligence Unit |
| **Emoc** | Emergency Obstetrical Care |
| **ENR** | Environment & Natural Resource |
| **ENRS** | Environment & Natural Resource Sector |
| **EPRC** | Economic Policy Research Centre |
| **ESO** | External Security Organisation |
| **ESSP** | Education Sector Strategic Plan |
| **ESSPAPR** | Education Sector Annual Performance Review |
| **FAL** | Functional Adult Literacy |
| **FY** | Financial Year |
| **GBS** | General Budget Support |
| **GDP** | Gross Domestic Product |
| **GG** | Good Governance |
| **GOSS** | Government of South Sudan |
| **GOU** | Government of Uganda |
| **GPI** | Girls Power Initiative |
| **HC** | Health Center |
| **HIPC** | Highly Indebted Poor Country |
| **HIV** | Human Immunodeficiency Virus |
| **HRH** | Human Resources for Health |
| **HSSP** | Health Sector Strategic Plan |

| | |
|---|---|
| **ICT** | Information Communication & Technology |
| **IDD** | International Development Department |
| **IDP** | Internally Displaced Persons |
| **IFI** | International Financial Institution |
| **IFMS** | Integrated Financial Management System |
| **IFS** | International Financial Statistics |
| **IGG** | Inspector General of Government |
| **IMF** | International Monetary Fund |
| **IMR** | Infant Mortality Rate |
| **IPT** | Intermittent Presumptive Treatment |
| **ISO** | Internal Security Organisation |
| **ITN** | Insecticide Treated Net |
| **JBSO** | Joint Budget Support Operation |
| **JCHA** | Juba Cessation of Hostilities Agreement |
| **JLOS** | Justice, Law and Order Sector |
| **JMC** | Joint Monitoring Commission |
| **KIDPP** | Karamoja Integrated Disarmament and Development Plan |
| **KRA** | Key Result Area |
| **KSR** | Key Strategic Result |
| **LCC** | Local Council Court |
| **LDU** | Local Defence Unit |
| **LG** | Local Government |
| **LPO** | Local Purchase Order |
| **LRA** | Lord's Resistance Army |
| **LTEF** | Long Term Expenditure Framework |
| **M&E** | Monitoring and Evaluation |
| **MAAIF** | Ministry of Agriculture, Animal Industry & Fisheries |
| **MDA** | Ministry, Department and Agency |
| **MDGs** | Millennium Development Goals |
| **MDI** | Micro Deposit Taking Institutions |
| **MDRI** | Multilateral Debt Relief Initiative |
| **MFIs** | Micro Finance Institutions |
| **MFPED** | Ministry of Finance, Planning & Economic Development |
| **MGLSD** | Ministry of Gender, Labour and Social Development |
| **MMR** | Maternal Mortality Rate |
| **MOE** | Ministry of Education |
| **MOES** | Ministry of Education & Sports |
| **MOH** | Ministry of Health |
| **MOLG** | Ministry of Local Government |
| **MOPS** | Ministry of Public Service |
| **MOWE** | Ministry of Water and Environment |
| **MSMEs** | Micro, Small & Medium Scale Enterprises |
| **MTEF** | Medium Term Expenditure Framework |
| **NAADS** | National Agricultural Advisory Services |
| **NAR** | Net Attendance Ratio |
| **NARO** | National Agricultural Research Organisation |
| **NARS** | National Agricultural Research System |
| **NCEP** | National Civic Education Programme |
| **NEMA** | National Environment Management Authority |
| **NFP** | National Focal Point |
| **NGO** | Non Governmental Organisation |
| **NIMES** | National Integrated Monitoring and Evaluation Strategy |
| **NPPIBS** | National Public Procurement and Integrity Baseline Survey |
| **NPV** | Net Present Value |
| **NSDS** | National Service Delivery Survey |
| **O&M** | Operations & Management |
| **ODI** | Overseas Development Institute |
| **OOB** | Output Oriented Budgeting |
| **OPD** | Out Patient Department |

| | |
|---|---|
| **OPM** | Office of the Prime Minister |
| **PAF** | Poverty Action Fund |
| **PCR** | Polymerase Chain Reaction |
| **PEAP** | Poverty Eradication Action Plan |
| **PERs** | Public Expenditure Reviews |
| **PGBS** | |
| **PHC** | Primary Health Care |
| **PMA** | Plan for Modernisation of Agriculture |
| **PMTCT** | Prevention of Mother-to-Child Transmission |
| **PNFP** | Private Not For Profit |
| **PRDP** | Peace, Recovery and Development Plan |
| **PRGF** | Poverty Reduction and Growth Facility |
| **PRM** | Pillar Review Meeting |
| **PRS** | Poverty Reduction Strategy |
| **PRSC** | Poverty Reduction Support Credit |
| **PSR** | Poverty Status Report |
| **PSRP** | Public Service Reform Programmes |
| **ROM** | Results Oriented Management |
| **SACCO** | Savings and Credit Cooperative Organisation |
| **SDIP** | Social Development Sector Strategic Investment Plan |
| **SIP** | Strategic Investment Plan |
| **SNE** | Special Needs Education |
| **SP** | Sulfadoxine-Pyrimethamine |
| **SPF** | Security Policy Framework |
| **SWAp** | Sector Wide Approach |
| **SWG** | Sector Working Group |
| **UBOS** | Uganda Bureau of Statistics |
| **UCB** | Unit Cost Budgeting |
| **UDHS** | Uganda Demographic Health Survey |
| **UHRC** | Uganda Human Rights Commission |
| **UHSBS** | Uganda HIV/AIDS Sero-Behavioural Survey |
| **UJAS** | Uganda Joint Assistance Strategy |
| **UNAIDS** | |
| **UNDP** | United Nations Development Programme |
| **UNHCR** | United Nations High Commission for Refugees |
| **UNHR** | United Nations High Commissioner for Refugees |
| **UNHS** | Uganda National Household Survey |
| **UNV** | United Nations Volunteers |
| **UPDF** | Ugandan Peoples Defence Forces |
| **UPE** | Universal Primary Education |
| **UPPET** | Universal Post Primary Education Training |
| **URA** | Uganda Revenue Authority |
| **US$** | United States Dollars |
| **USE** | Uganda Security Exchange |
| **USE** | Universal Secondary Education |
| **Ushs** | Uganda Shillings |
| **VAT** | Value Added Tax |
| **VCCU** | Violent Crime Control Unit |
| **VHT** | Village Health Team |
| **WB** | World Bank |
| **WFP** | World Food Programme |
| **WHO** | World Health Organisation |
| **WRS** | Warehouse Receipt System |
| **WUC** | Water User Committee |

# 1 INTRODUCTION

The Poverty Eradication Action Plan (PEAP), since its first formulation in 1997, has become the overarching plan for poverty eradication of the Government of Uganda (GoU). The Uganda PEAP, the first Poverty Eradication Strategy to be formulated in Africa, builds on wide consultations between Government, civil society and external development partners. As such, it serves as a consensus-building process for expression of national development aspirations – and for prioritisation of needs. It also guides the planning and management of Government operational activities for national development and the attainment of the Millennium Development Goals (MDGs).

The Annual PEAP Implementation Review (APIR) is to become institutionalised as a core process and event in public sector management, informing stakeholders annually about progress made in implementing the PEAP. The APIR is an inter-sectoral review mechanism based on linkages, synergies and complementarities between sectors and Pillars. The overall objective of the APIR is to improve planning, budgeting and implementation of activities leading to realisation of the PEAP outputs and outcomes. The APIR is the framework that will enable Government and stakeholders such as civil society, private sector and development partners to make decisions that will keep the implementation of the PEAP on track. It will provide inputs to guide adjustments of the PEAP Results and Policy Matrix. The process is managed under the National Integrated Monitoring and Evaluation Strategy (NIMES) implemented by the Office of the Prime Minister (OPM).

The first APIR process, conducted in 2005/06, tested the methodology and generated fruitful lessons that will be instrumental in the institutionalisation of future reviews. The 2006 APIR builds on several different types of data sources that include: the results of the sector reviews, performance reports, local government assessments, public expenditure reviews and analytical work carried out in 2005 and 2006. It also draws on data from the 2006 Uganda National Household Survey (UNHS) and the Uganda Demographic Health Survey (UDHS) carried out by the Uganda Bureau of Statistics (UBOS).

A Zero draft of the 2006 APIR report was shared with stakeholders in mid January, 2007. Comments from stakeholders, including Government ministries, departments and agencies (MDAs) development partners, Civil Society Organisations (CSOs), and Non Governmental Organisations (NGOs) were received and documented. The Zero draft was discussed in February 2007 at a major meeting of stakeholders that brought together over 200 participants from Government, Parliament, development partners, NGOs, and civil society. The Draft was discussed in separate Pillar Review Meetings (PRMs) and in plenary sessions that discussed broad issues. Relevant comments relating to the quality of data presented in the APIR, operational issues related to the implementation of the specific Pillar in the PEAP, and the next steps among Sector areas related to each Pillar were incorporated.

The APIR process faced several challenges. Foremost among these were the delays in procurement, which affected the contractual engagement of Pillar teams. This in turn affected the quality of the work process and the timely implementation of the review process. Furthermore, Pillar teams faced challenges in the differences in the annual reporting cycles of the various MDAs, and with the inconsistency and unavailability of updated data for the period 2005 and 2006 (e.g. the UDHS results were not available in their entirety in early January 2007) resulting in the APIR falling back on 2004 data for the purposes of reporting in this review period. Additionally, the differing timetables of the sector reviews, and Government led surveys like UDHS, and UNHS, have prevented optimal utilisation of the data and evidence. These challenges are reflected in the content of the report and prolonged time it took to complete the review.

Other challenges included:

- Limited appreciation of the importance of maintaining and emphasizing the contribution of the APIR process to public sector management among some stakeholders;
- limited capacity among staff of ministries to institutionalise the process of collecting and analysing data;

- inconsistencies in data from national and sub-national sources;
- difficulty of procuring relevant and timely data from ministries, despite repeated requests,
- challenges in harmonising the different monitoring and evaluation needs of various stakeholders;
- sector review processes that did not adjust their reviews to inform the Pillar review process of the APIR;
- inadequacy of resources for collation, and aggregation of data at all levels; and
- inadequate capacity at district levels to process and provide data at an appropriate time.

This report is presented in ten chapters. After the introduction, Chapter 2 presents a summary of the key strategic results of PEAP implementation. Chapters 3, 4, 5, 6 and 7 present the details of the status of progress and actions on the implementation of policies and measures outlined in the five thematic areas of the PEAP, namely: Economic Management; Enhancing Production, Competitiveness and Incomes; Security, Conflict Resolution and Disaster Management; Good Governance; and Human Development. Chapter 8 focuses on the linkage between the Annual budget and the PEAP, and Chapter 9 discusses the monitoring and evaluation of the PEAP. The key recommendations are given in Chapter 10.

## 2 PEAP STRATEGIC RESULTS: A SUMMARY OF ISSUES

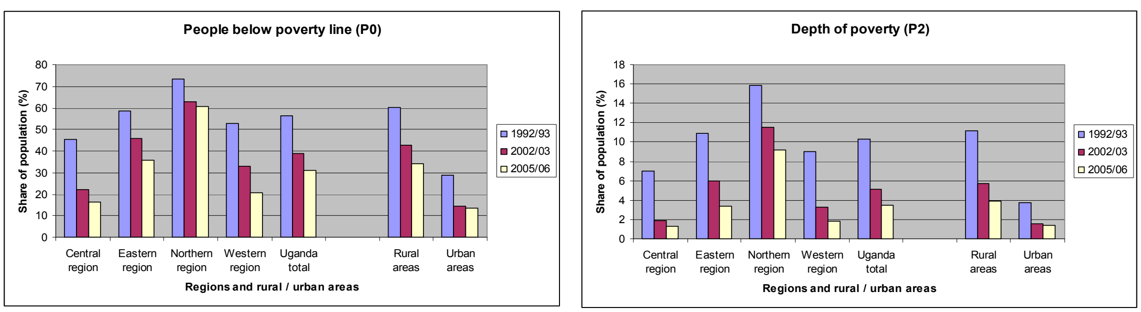
### 2.1 Review Framework

The APIR assesses the implementation of Uganda's Poverty Eradication Action Plan (PEAP) in respect of three key strategic results: (i) reduced income poverty and inequality, (ii) increased economic growth, and (iii) improved human development. It examines whether the overall trends observed at Pillar levels, and the indicator values and measures are progressing towards achieving these key strategic results. Trends in areas like security and governance are discussed as crosscutting policy areas significant as enablers for the achievement of the key result areas and as factors influencing development effectiveness. The review has been framed in the context of recent population growth and government population policy; and the crosscutting issues of gender equality, Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS) and environment. Further development and use of a tool for comparing the performance of the PEAP pillars in the Key Result Areas (KRAs) for attaining the PEAP outcome targets (initially for 2007/08), building on the sector findings from the APIR process, is considered very critical for the implementation of the National Integrated Monitoring and Evaluation System (NIMES).

### 2.2 Income Poverty and Inequality

Each of the three measures of poverty: the proportion of the population below the poverty level; how far below the poverty line poor people are on average; and the depth of extreme poverty has improved since 1992/93. Not only have the measures improved, but they have improved in all regions of the country, and in rural and urban areas. The greatest improvement has been in rural areas. The least improvement has been in the Northern region, largely due to the continuing armed conflict in the region. It is remarkable that poverty has been reduced at all in the North. Figure 2-1 summarises the trends in poverty levels since 1992. Extreme poverty has nearly halved since 1992/93, strongly suggesting that the MDG goal of halving the proportion of people whose income is less than one dollar a day between 1990 and 2015 is likely to be met. Peace in the North would make the target even more likely to be achieved.

**Figure 2-1: Development in Poverty Levels, 1992/03 - 2005/06**




*Source: Based on Tables 2.1A and 2.1C, Annex 2.1.*

Inequality in household consumption has diminished. Although a target was not specified, the PEAP strategy was to reduce the Gini coefficient[1] from the 0.43 value estimated in the household survey of 2002/03. By 2005/06 it had dropped to 0.408. The poorer layers of the population experienced higher rises in living standards than the more affluent. This trend was mainly caused by a decline in inequality of incomes in urban areas. The level of inequality remained the same in rural areas.

[1] The Gini coefficient is the most commonly used measure of inequality. The coefficient varies between 0, which reflects complete equality and 1, which indicates complete inequality.

However, income inequality between regions increased between 1992/93 and 2005/06 but declined between education levels.

### 2.3 Economic Growth

Macroeconomic policy has contributed to poverty reduction by successfully creating the conditions for Gross Domestic Product (GDP) growth. Growth of GDP was above 5% in the three years to 2005/06, despite the electricity supply crisis and disappointing growth in the agricultural sector. Growth is forecast to be above 6% in 2006/07, partly because of prospects of peace in the North. GDP growth has been widely spread across regions and across the urban and rural populations resulting in a general reduction in income poverty. Urban income growth has provided markets for rural output and direct transfers from urban dwellers accounted for 4.3% of rural household income in 2006.

GDP growth also invariably increases tax revenue, creating the conditions for Government to spend more on reducing public service poverty, most notably the provision of health and education services. There is evidence that the level of education is strongly correlated with higher output and income, in the agricultural sector in particular. However, government revenue as a percentage of GDP (13.2% in 2005/06) has not increased fast enough and the target of 15.8% in 2013/14 may not be met.

GDP growth, and the resulting government revenue growth, should enable the Government to spend more on infrastructure. Improved infrastructure, in turn, should create the conditions for further GDP growth. Repairing, maintaining and extending the roads network is probably the most productive form of infrastructure spending. However, spending on roads has been insufficient to reduce the backlog of maintenance from the earlier years of funding stagnation. Future spending plans indicate a sharp increase in spending on roads. This is particularly important, because better roads reduce the costs of production and marketing. Access to roads has had a direct positive impact on the income of smallholder farmers.

The other category of government spending, which has had the most direct impact on output growth and reduction of poverty is the provision of economic services, most especially agriculture extension advice through the National Agricultural Advisory Services (NAADS). Farm incomes are higher in those districts and sub-counties covered by NAADS. At best, NAADS should base its advice on relevant agricultural research, but it is reported that linkages and communication between NAADS and the National Agricultural Research System (NARS) are weak.

The current macroeconomic policy appears appropriate to the areas free from conflict. The conflict in the North has had a negative impact on macroeconomic outcomes. There are arguments that macroeconomic policy could be used to generate faster GDP growth, for example by relaxing monetary policy to allow a higher rate of inflation. This might not work, and would have large risks, for example in creating inflationary expectations, which would be hard to control. It is expected that if peace is finally established, the growth rate of GDP will increase without any change in macroeconomic policy.

Government policy has been to increase competition by economic liberalisation, including privatisation and opening up foreign trade so that Ugandan producers compete with foreign producers. Although direct indicators of competitiveness and productivity were not available, the competitiveness of the private sector was demonstrated by their ability to sell goods and services in both the domestic and external markets. GDP and exports increased in the first two years of the current PEAP with private sector production increasing faster than GDP in the last two years. The contribution of the education and health sectors to GDP also increased faster than GDP. Although this did not affect the private sector directly at the time, it contributed to future growth.

The Government stated policy is to improve the investment climate. Uganda's ranking in the World Bank's *Doing Business* survey declined by four places in 2006 compared to 2005. The number of procedures required to export, import, enforce a contract, close a business, start a business, or obtain a business license did not reduce and there was no improvement in the indices for credit information and investor protection. The number of procedures required to register a property increased from 10 to 13. The global competitiveness survey also indicated that Uganda's overall ranking declined from the 78$^{th}$ percentile in 2002/03 to the 90$^{th}$ percentile in 2006/07. The failure to improve the regulatory environment is one of the signs of overall lack of progress in governance reforms.

GDP growth was the main mechanism for reducing income poverty. Rural poverty has been reduced, not by increased productivity in smallholder agriculture, and in particular not by increased subsistence output, but by smallholders moving increasingly into the monetary economy. Subsistence output provided income to a number of people, but the main influence on poverty reduction seems to have been a major increase in poor rural people finding off-farm sources of income. Government macroeconomic policy created the conditions for steady growth of monetary GDP. In turn, this created opportunities for subsistence farmers to move partially or entirely into the market economy, which delivered higher incomes than subsistence agriculture. In addition, districts reached by NAADS were found to perform better indicating that Government spending on agricultural extension is making a positive difference.

### 2.4 Human Development

The indicators on human development show both progress and decline, but the downward trends are more pronounced. Primary school enrolment is at 90% and on track, but less than half of those who enrol stay until completion. Trends indicate that there has been too much policy emphasis on achieving education enrolment targets to the detriment of improving the quality of education, such as reducing dropout rates, obtaining higher completion rates and increasing proficiency. Additional enrolment simply does not bring about increases in literacy rates, and other indicators of educational achievement. The Government has announced that all children will go on to secondary school, but the share of education in government spending fell in the two years to 2005/06, and the real value of the education budget in the next two years is unchanged. There was also a slight decrease in the overall literacy rate between 2002/03 and 2005/06. Community mobilisation and empowerment were not prioritised but are known to have potentially negative implications for literacy, sanitation, nutrition, family planning, Primary Health Care (PHC), and entrepreneurship/ local economic development.

There is no recent reporting on the key indicators of infant mortality and maternal mortality, so the report relies on trends in contributing factors. There was a downward trend in access and quality of health services and sanitation hardly showed any improvement between 2002/03 and 2005/06. Evidence on factors affecting infant mortality rates, maternal mortality rates and nutritional status makes it unlikely that PEAP and MDG targets will be met. The indicators of contributing factors to reduced maternal mortality are improving although it is not possible to state how this will enable achievements as anticipated in the PEAP. Malnourishment which places children at increased risk of illness and death and is related to impaired mental development is high. Preliminary 2006 UDHS data show that 32% of children under five are short for their age, while 12% are severely stunted and 20% are underweight. Rural children are almost 50% more likely to be stunted and 54% more likely to be underweight than urban children.

Utilisation of government health care services is declining due to diminished financing for primary health services (especially for essential drugs/medicines and supplies), increased levels of medicine stock-outs at health facilities and poor health services management. The cost of the Uganda National Minimum Health Care Package is estimated at US$28 per capita but the current level of funding is only about US$ 15 per capita. High population growth rates, growing expenditures for HIV/AIDS treatment, and diversion of resources to public administration (new districts requiring establishment of health units) further constrain the resource envelop. The percentage of health facilities without drug stock-outs deteriorated from 35% in 2004 to 27% in 2005. The increasing tendency for the population to use private clinics rather than government health centres could as well be a proxy indicator of deteriorating quality of government health services. The demand for payment for drugs further biases the availability of health services against the poor.

Rural water supply coverage gradually rose to 61% in 2004/05 and 2005/06. However, poor hygiene practices in maintaining a safe water chain diminished the quality of water finally consumed. The national average distance to drinking water was about one kilometre, while the waiting time was half an hour. The percentage of the population using sanitation facilities was 58% in 2006. Improved sanitation practices are known to make a qualitative change in key human development indicators and the limited progress on use of sanitation facilities has a major bearing on achieving the MDGs. As with access to water, expenditure on sanitation in rural areas was not able to keep pace with population growth. Over a four-year period, population growth outstripped the number of new people served in 23 out of 56 districts.

At the current per capita expenditure trends through the District Water and Sanitation Conditional Grant (DWSCG), the national PEAP targets can not be met. The high population growth rate of 3.2% per annum strains both access and quality of service delivery. In the North the rate which is as high as 4.6% further weakens both access and quality of services in an area already under extreme stress. The diminished revenue base (abolition of Graduate Tax) severely constrains the ability of local governments to manage and monitor service delivery. It is particularly important to raise the quality of education for females as one of the ways of reducing infant mortality, which will eventually lower fertility and the rate of growth of the population. In this context, it is also important to deliver family planning services to cover hard to reach areas and Internally Displaced Persons (IDP) camps.

Across the human development Pillar, poor resource allocation and limited emphasis on enabling inclusiveness and empowerment affect education, protection of vulnerable groups, improvement of sanitation, health and functionality of water supply. Budget allocations to the human development sectors averaged real annual growth of 2.1% in the four years to 2006/07. However, actual spending was estimated at 10-20% higher than indicated by the Medium Term Expenditure Framework (MTEF) since some donor aid is not captured by the MTEF. The proportion of this spending protected under the Poverty Action Fund increased from 60% in 2005/06 to 78% in 2006/07. It is not likely that the existing PEAP and MDG targets can be met if the current MTEF resource envelope is maintained. All four sectors under the Pillar require large additional resources.

### 2.5 Security and Conflict Resolution

There are prospects for peace to return to the North. Since the Juba Cessation of Hostilities Agreement (JCHA) in 2006, some people have returned from camps to their villages although there are still more than 1.4 million IDPs. Poverty levels are almost twice as high as the national average. Only 74% of children attend primary school in the North (43% in Karamoja) and less than 5% of children attend secondary school.

An emergency six-month action plan was launched in May 2006, and there is a Peace, Recovery and Development Plan (PRDP) for Northern Uganda and neighbouring districts, with four key areas: (i) consolidation of state authority, (ii) rebuilding communities through improving conditions in the camps and helping people to return to their homes, (iii) revival of production by strengthening production, marketing, processing and services, and (iv) reconciliation between the two sides. Further, an Emergency Humanitarian Action Plan (EHAP) is to be prepared. There does not appear to be the careful planning of government expenditure that would be optimal for post-conflict rehabilitation. Meanwhile, there is no sign of the aid donors coordinating their plans for rehabilitation of the North, and still less of them agreeing to fund an agreed rehabilitation plan. What is clearly needed is a comprehensive and phased expenditure plan for the North.

### 2.6 Governance

Good governance is the key for broad-based and sustained growth, sound institutional development, and further progress with democracy. Structural reforms, which span public sector management covering transparency, accountability, legal certainty and control of corruption, are the most difficult reform processes for developing countries. The PEAP indicators on governance do not systematically capture these governance processes.

The opinion on the recent general election was divided. Aid donors were dissatisfied, and some cut their contributions to Joint Budget Support Operations (JBSO). An opinion poll after the election indicated that the majority of respondents thought the election was free and fair although with minor problems. Turnout remained at about 70% over the last three national elections, which is a good indicator of progress on democratisation. The extensive changes in the composition of councils during the local elections provide further evidence of strong democracy in Uganda.

The Uganda Human Rights Commission (UHRC) recorded a fall in the number of violations between 2003 and 2005. This includes a reduction in the number of torture cases, but there were still 256 cases reported in 2005. The PEAP objectives include reduced crime, reduction in the number of those on remand, increased confidence in the Justice, Law and Order Sector (JLOS) including access to legal aid and satisfaction with the Commercial Court including reduction in the backlog of cases. The crime rate is rising and the time spent on remand has increased, with notable large regional variations. For example, in some regions court sessions have not been held for up to three years and people could spend up to five years on remand.

Various surveys show that the justice system has enormous problems, including perceptions of high levels of corruption. The legal aid system is clearly inadequate. Poorer people regard the formal justice system as irrelevant to them because of the high costs involved, including the need to pay bribes to get access to the formal justice system. Outdated commercial laws hamper progress. The Company and Land Registries were perceived in a 2004 survey to be corrupt and slow. A mid-term review of the JLOS Sector Investment Plan (SIP) indicated progress in physical construction of offices and training of staff, but little mention of outcomes such as more cases processed and a reduction in the backlog of cases. Overall, core problems of the JLOS remain a huge and growing case backlog in all institutions and processes (including a huge remand population), slow law reform process, poor quality of justice, limited impact of reform programmes, and lack of a monitoring and evaluation framework.

Public service reform programmes have been ongoing since 1991. However, it is difficult to point to concrete evidence of substantial improvement. The National Service Delivery Survey (NSDS) of 2004 highlights a high incidence of corruption - from 33% for central police to 11% for land tribunals. A National Public Procurement Integrity Baseline Survey (NPPIBS) estimates that 2.2% - 3.0% of the budget of local governments, and between 2.5% - 3.1% of the annual budget of central government may have been lost to procurement related corruption in 2004/05. The continued, uninterrupted corruption could threaten the entire performance of the political system and social stability.

Public administration accounts for 19.1% of the total state budget, which is a very big proportion given the scarce Government resources. Local governments are under-funded considering their extensive mandate and are too reliant on central government transfers to focus on local priorities. Transfers from central government have declined from 33% of the national budget in 2000/01 to an estimated 21% in 2006/07. Even more devastating was the abolition of Graduate Tax, which accounted for 60% and 20% of total resources for rural and urban councils respectively in 2005/06. Most of the remaining unconditional grants from central government are for salaries, and therefore not really unconditional.

### 2.7 Population Growth and Policy

Uganda is reported as having one of the highest rates of population growth in the world, ranging from 2.6% in Kampala to 4.6% in Northern Uganda. This creates an economic opportunity, on the one hand, as the current cohort of young people under the age of 15 who comprise half the population enters the labour force. On the other hand, this puts enormous strain on the Government’s ability to deliver services. This problem will continue as long as the high fertility rate persists. Increasing the availability of family planning services and decreasing mortality rates could provide some relief. Research shows that women have fewer children if the infant mortality rate falls so that a higher proportion of children reach adulthood. Women also want fewer children once they are more educated and/or participate in work outside the home. In many rural settings, the "economic" value of women and children was viewed in the context of their availability for household and farming work. Education diminishes this outdated outlook and potentially leads to a desire to have fewer better educated children that can have good and well-paying jobs.

Macroeconomic policy is generating growth of monetary GDP and export opportunities, and thereby increasing opportunities for off-farm income in which women are participating fully. Access to education is also increasing. Unless Uganda is for some reason different from other countries, these policies should in due course result in a fall in the fertility rate, and therefore in the rate of population growth.

### 2.8 HIV/AIDS

HIV/AIDS prevalence rose slightly in the last two years, as did the number of new infections per year. According to UNAIDS, this indicates a possible erosion of the gains Uganda made against AIDS in the 1990s. Whereas the health sector has made interventions on HIV counselling and testing, AIDS care and treatment, Anti-retroviral therapy (ART) and prevention of mother to child transmission (PMTCT), the magnitude of the epidemic requires continued and enhanced investments in prevention, care and treatment. Particular emphasis needs to be put on preventive interventions to protect young women.

### 2.9 Environment

The development of a comprehensive environmental policy has delayed despite mounting evidence of soil deterioration, forestry depletion, and over fishing. Damage to the environment is largely caused by poverty, because people overwork the soil and cut down trees in the absence of other forms of income and fuel. The most effective way of protecting soils and forests, especially in the short run is to create opportunities for off-farm employment and marketing of agricultural output. In the long run, a comprehensive land use policy is necessary. The Land Registry and the Land Fund has made some progress in developing such a policy. A target of 3% of households having land titles by 2013/14 has been set. This would still leave the overwhelming majority of households without a title, and therefore without the incentive to profitably and sustainably use their land, thereby protecting the environment.

### 2.10 Gender Equality

The MDG on gender equity and women empowerment is to eliminate gender disparity in primary and secondary education by 2005 and at all levels by 2015. This target will probably be met. The gender enrolment gap at primary school level has closed and the overall net attendance ratio for secondary education slightly favours girls, although the access for girls in some regions is still considerably lower than for boys. The Council for Economic Empowerment of Women in Africa (CEEWA), Uganda Chapter, has proposed an action plan for gender equity and women's empowerment across all PEAP Pillars and the Poverty Reduction Support Credit 4 (PRSC 4). This will be taken into consideration in the revision of the PEAP matrix. Other civil society organisations play a major contributing role and monitor the implementation of gender equality policies.

### 2.11 Millennium Development Goals

The 2005 MDG Progress Report for Uganda concludes that more effort is needed if the MDGs are to be achieved. The recent decline in income poverty implies a high probability for Uganda to halve the proportion of people living in extreme poverty by 2015. The goal to halve the proportion of underweight children below five years old by 2015 may potentially be reached. The PEAP addresses malnourishment, but there are no baseline data and targets established. The 2006 UHDS preliminary data show that stunting is a major problem in children, and rural children are almost 50% more likely to be stunted. Trends in the factors contributing to reducing child and maternal mortality rates suggest that the anticipated reductions are not likely to be achieved. The MDG goals are to reverse the baseline indicators by two-thirds and by three-quarters, respectively.

The target of 100% primary school enrolment is likely to be achieved; thanks to the Universal Primary Education (UPE) policy. The recorded level for 2006 enrolment is 91.7%. However, the quality of education is declining and dropout rates are high. It is also highly probable that the proportion of people without sustainable access to safe drinking water will be halved. There is doubt as to whether Uganda will be able to continue to halt or reverse the spread of HIV/AIDS by 2015. The HIV infection rate peaked at 18% in 1992 and was gradually reduced to 6.2%. Recent reports indicate it has risen to 6.4%.

### 2.12 PEAP and the Budget

The total Government budget increased in nominal terms by 9.5% per annum from 2003/04 (the year before PEAP start) to 2006/07, or 6.6% in real terms based on the GOU deflator for public consumption. While these growth rates in the first PEAP years are higher than expected, the planned nominal growth of 4.5% - 4.7% annually for 2007/08-2008/09 are below PEAP projections. Government increased the share of total spending by productive sectors (Pillar 2) in 2005/06 and 2006/07 and halted growth in allocations to the human development sectors, especially Pillar 5. There is a small but significant budget deficit, after taking account of grants, and revenue is not increasing fast enough to meet the PEAP targets. The need for additional budget resources and increased spending is strong for several sectors, but the budget is stretched.

The main challenges for future planning and budgeting are to establish targets where they do not exist, to be fully realistic in target setting based on costing of plans, and to revise prioritisation of resources as required by adjusting MTEF budget shares to ensure a balanced implementation of the PEAP. Choices will have to be made as to which of the many deserving categories should be given priority without increasing the resource envelope. A cutback in expenditure for administration has been strongly advocated, but this often meets strong opposition from both civil servants and politicians. There is a need to develop a more explicit link between PEAP objectives and MTEF sector budgets for which the following could be considered:

- For the current PEAP (2004/05-2007/08): *Translation of the annual MTEF budget, including projections, into a PEAP-based budget* and use this "shadow PEAP budget" for monitoring of PEAP implementation performance and resource requirements in the APIR process;

- Aimed at future PEAPs: *Revision of the existing MTEF sector structure to correspond better with PEAP objectives,* assign policy objectives to the new sectors in the context of the planned new sector working group structure, and make sectors accountable for delivering results.

- *Output-Oriented Budgeting (OOB) and Unit Cost Budgeting (UCB) to be fully institutionalised* and consistently used for developing sector investment plans throughout Government.

Improvements in budget efficiency should be pursued through conduct of and follow-up on sector reviews, public expenditure reviews, and efficiency/value-for-money studies on a planned and consistent basis for the MTEF sectors or at PEAP pillar level – giving priority to those sectors considered key to achievement of the principal PEAP objectives.

### 2.13 Pillar Highlights

***Pillar 1: Macroeconomic policy****: Macroeconomic policy has been broadly correct for some years.* Inflation has been under control; real exchange rate is reducing; GDP growth is steady at a reasonably satisfactory rate, and with a possibility of being faster if there is peace in the North; exports are growing faster than GDP; and within GDP, private sector production and spending on health and education are growing faster than GDP. Poverty has resumed its downward trend, because of steady GDP growth in general and private sector production in particular. *There is no major justification for changing macroeconomic policy at present*. It is critical for Government to *reduce the budget deficit after grants* because of the growing cost of interest payments on government debt. To reduce the risk of short-term disruption the *donors and the government should reach agreement not to cut Joint Budget Support Operations (JBSO) in current fiscal year* and, if imperative, only do so in the following fiscal year with limited amounts and based on clearly articulated areas of performance.

***Pillar 2: Production, competitiveness and competition*:** Rural poverty has been reduced, even though agricultural production has been growing more slowly than population. An increasing proportion of subsistence farmers are selling some of their food and other crops for cash, and finding off-farm sources of income. These economic opportunities have been created by *growth of monetary GDP,* and by the positive effects of *improved rural roads and agricultural extension* on rural income. The environment is threatened with deterioration of soils, forests and fish stocks.

Maintaining policies which reduce poverty is the most effective way of reducing the pressure on the environment. The return of some internal migrants from congested camps will reduce pressure on the environment, at least temporarily.

Reducing population growth rate is interlinked to further reductions in rural poverty, which should lead to reduced child mortality and further income-earning opportunities for women, together with better education for women. Government should focus on targeted family planning interventions. Minimising the regulatory burden is likely to further enhance private sector competitiveness. Policies to *reduce 'red tape'* and *curb* corruption are needed. Credit appears to have limited impact on agricultural output but may be effective in increasing off-farm income opportunities. Policy on microfinance should limit Government intervention to providing technical assistance on such issues as standardised constitutions, regulations and accounting systems.

***Pillar 3: Security, conflict resolution and disaster management*:** Many of the PEAP objectives will be achievable, if the peace process in the North and among Uganda's neighbouring countries is achieved and sustained, because of the opportunities for increased production and trade. Policy instruments should be appropriate for the diverse types of conflicts and should prioritise actions which assist women and children who are more severely affected by conflict. A comprehensive expenditure plan for the North carefully considering the resources available in terms of management capacity, construction capacity, availability of skilled labour, etc is needed. The current MTEF definition of the pillar is limited to the security sector. There is a lot of off-budget financing that goes towards the sector which is a set back to overall planning, aid effectiveness, transparency and predictability. There is also need to reconsider the relevance of this Pillar in the context of the Peace, Recovery and Development Plan (PRDP) for Northern Uganda and the implementation of a national policy on disaster management. This way, the government would develop capacity to reduce the vulnerability to natural disasters and violent conflict.

***Pillar 4: Good governance*:** A better framework for assessing good governance has to be developed to avoid the use of short term and *ad hoc* parameters. It is important that stakeholders consider a more coherent, longitudinal and relevant set of indicators to replace the current indicators that only cover limited elements of the crosscutting governance and respect for human rights agendas. There is need to deepen the indicators of *a strengthened system of representation* in order to better understand the factors that influence voter turnout and public satisfaction with the extent of democracy. Two public service reforms have been undertaken, but it is not easy to gauge their overall contribution to public service performance and hence provide a basis for the implementation of the new reform programme. The rising cost of public administration is crowding out service delivery priorities in the Government budget. Political pressure on the budget management system is intense and is negatively impacting on the attainment of defined outcomes. In addition to the proliferation of new districts, there are indications of duplicated mandates across public sector institutions leading to increases in the cost of public administration. A detailed functional analysis of the numerous agencies and organisations involved in the pillar should disclose their efficiency, areas of redundancy, under-resourced functions, resource wastage and under-utilisation.

The National Civic Education Programme (NCEP) should be supported to ensure informed and meaningful participation; as well as enhanced demand for accountability by citizens. As part of the strategy to reduce case backlog, reform of the law on defilement should be expedited. It is vital that Government reviews the laws relating to civil society functionality and freedom of press to tap the potential of these institutions in fostering governance and development. Local Government (LG) own-sourced revenue is important for sustainability, ownership, accountability and efficiency. There is need to redesign the tax base combined with strong capacity building and political support to boost local government revenues. The volume of central government grants and the proportion of the unconditional grants have been reducing and this needs to be reversed. It is also critical to maintain the subsidiary principle for division of functions between the administrative tiers.

***Pillar 5: Human development*:** Increased spending on primary education has been successful in getting more children in school. However, only half of those enrolled stay until completion. This suggests strongly that more attention should be directed towards the quality of primary education. Indicators of progress with health are disappointing, especially as reduced infant and child mortality are important for reducing population growth in the long run. Raising educational attainment of females as a strategy towards reducing infant and child mortality (through seeking ante natal care, delivery in health centres, immunisation coverage and improving nutritional status of children) is desirable, in addition to providing wider coverage of family planning services. Reducing *malnutrition* will require a clear understanding of the causes, including limited access to land, food shortages, and a shift from subsistence to commercial agricultural production, challenges of food processing and storage, and gaps in community mobilisation. Sanitation coverage needs to be improved as it has positive effects on a range of human development outcomes. The social indicators on the North are way below the national average, which signals the necessity to re-establish peaceful communities and improve the quality of service delivery.

# 3 PILLAR 1 - ECONOMIC MANAGEMENT

## 3.1 Overall Trends

The main priorities articulated in the PEAP for economic management are: maintenance of macroeconomic stability; fiscal consolidation; and boosting private investment. The main contribution of macroeconomic policy to the reduction of income poverty is through the influence of policy on private sector growth. Directly, government spending can only reduce public service poverty. It is still debatable (in Uganda and other African countries pursuing similar poverty reduction strategies) as to how far a basic service provision strategy is also an effective income poverty reduction and growth strategy (Van Arkadie, 2006, para 1.7). Will improved education and health, combined with stable macroeconomic policies and liberal incentive policies generate sustained increases in national production?

Macroeconomic policy should deliver GDP growth, which in turn should reduce income poverty. Overall, existing macroeconomic policy is close to optimal levels although its consequences were dragged down by the conflict in the North. Other positive indicators include very rapid growth of exports to those neighbours recovering from conflict, DRC, Rwanda and Sudan, and rapid growth of previously unrecorded exports to DRC. Uganda has continued to maintain satisfactory macroeconomic stability, indicated by an inflation rate of about 5% in recent years. This has been accompanied by steady growth of GDP, maintained despite adverse terms of trade and an energy crisis. Real exchange rates have depreciated. Furthermore, external debt relief is in process and should reduce external debt to relatively low levels.

The fiscal deficit has been kept relatively under control. The deficit remaining after grants has caused government interest payments to reach 10% of recurrent spending. Domestic revenue as a percentage of GDP has been rising, although not enough to reach the long-term PEAP target. The level of government spending on administration is causing concern among development partners, who finance 50% of recurrent spending.

The Ugandan budget is extremely aid-dependent. The risk of cuts in Joint Budget Support Operations (JBSO) is therefore severe, given that JBSO can be cut more quickly than other forms of aid. An agreement is needed between the JBSO development partners and the Government not to cut JBSO at short notice. Private sector access to finance has been increasing faster than GDP although overall levels remain low.

Growth of GDP has been below the PEAP target of 7% per annum. This has been sufficient for the proportion of people below the poverty line to resume its downward trend. Poverty in Uganda declined from 56% of the population in 1992/93 to 39% in 2002/2003 and 31% in 2005/06. Nevertheless, nearly 8.4 million Ugandans lived in poverty in 2005/06. The majority of these lived in rural areas, despite the decline in income poverty being the highest in rural areas (8.5 percentage points) compared to urban areas (0.7 percentage points). The North, where conflict continues, witnessed the smallest gains with poverty levels at just over 60% - nearly double the national average. If the peace process is successful in the North, regional production should recover. This should increase GDP growth, reduce the rate of inflation, and reduce poverty levels. If poverty in the North fell to the current national figure of 31%, poverty overall would fall by about 6 percentage points. There is some evidence that improvements in the delivery of public services mitigated some of the problems stemming from the rise in income poverty, and have reinforced the recent resumption of the downward trend in poverty.

### 3.2 GDP Growth

Recent growth of GDP has been fairly steady, but below the target of 7% in the PEAP (Table 3-1). Because of the prospect of economic recovery in the North, the Bank of Uganda forecast for 2006/07 was 6.2% while the IMF forecast for 2007/08 was 5.9% (IMF, 2006).

**Table 3-1: Growth of GDP and GDP/head: 2003-04 to 2006-07**

| GDP Growth | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|
| Annual | + 5.5 | + 6.6 | + 5.3 | + 6.2 [a] |
| Per Capita | + 2.2 | + 3.2 | + 1.9 | + 2.7 [a] |

*Source: Statistical Abstract 2006.*

[a] *Bank of Uganda Research Department revised estimate, November 2006.*

The below-target rate of growth of GDP is attributed to several factors. Firstly, the terms of trade deteriorated after 1999. If they had not, then growth since 2000 would have been similar to growth in the 1990s (World Bank, 2005a). Secondly, there is little indication in recent years that agriculture (which is still about 32% of GDP) was growing at target rates. In the last three years, monetary agriculture grew at an annual average of 1.2%, and non-monetary agriculture at an annual average of only 0.4% implying that recent GDP growth has had almost no impact on subsistence agriculture, although it increased non-agricultural income opportunities for subsistence farmers. Thirdly, manufacturing output in the formal sector fell by 3.5% in 2005/06 because of problems with electricity supply.

The 2005/06 UNHS reports that 61 percent of people live in income poverty in the North which is equivalent to 3.3m people. The Uganda Poverty Status Report 2005 gives the population of IDP camps as 1.8 million, which is about 7% of the total population. This is a significant proportion of people whose agricultural production has been disrupted. If the poverty rate in the North could be reduced to the national average of 31%, some 2.2 million people would no longer be in poverty. In turn, this would reduce the national poverty rate by 6 percentage points. These calculations, although extremely approximate give some indication of the order of magnitude involved. Increased production in the North, particularly of food, would also slow down increases in the price of food. This would reduce overall inflation significantly because of the importance of food in consumption spending. This would also be of most benefit to those on low-incomes who spend a high proportion of their income on food.

If security problems of the North are indeed resolved, there might be some reduction in military spending (a peace dividend). The North would also, in peaceful conditions, increase agricultural production, and exports to Eastern DRC and Southern Sudan despite concerns that food exports to neighbouring countries may cause domestic food prices to increase. Indeed, some people have already left IDP camps and resumed production. In the short run, recovery in the North would lead to high rates of regional GDP growth. It would also have a disproportionate impact on poverty reduction, because poverty in the conflict zones has been extreme. The impact on both GDP and poverty would be significant, because 22% of the population lives in the North. It is therefore possible that current macroeconomic policy is reasonably optimal for those parts of Uganda, which are peaceful. The fact that Uganda no longer borrows from the IMF, but "graduated" to a Policy Support Instrument (PSI) early in 2006 is an external indicator that macroeconomic policy is currently sound. Change to macroeconomic policy, simply because its results have been dragged down by the war with the Lord's Resistance Army (LRA), may not be necessary. It is highly probable that when the regional economy in the North has recovered, that current policy is the right one for the whole economy.

Annual growth of GDP per head averaged only 2.4% over the last three years, because of the high rate of population growth. Reducing the mortality rate, especially the child mortality rate has been observed in many African countries to lead to steep declines in fertility rates. This is further augmented by achieving a higher level of education and creating job opportunities for women, strategies that should accompany the growth of GDP. It should be noted that macroeconomic policy affects mainly the modern, monetised sector of the economy, whereas most of those below the poverty line are rural smallholders. At best, macroeconomic policy creates conditions in which rural smallholders earn cash from selling surplus production, and further income from non-agricultural activities. Macroeconomic policy cannot directly affect subsistence income.

## 3.3 Macroeconomic Stability

### 3.3.1 Fiscal deficit

The fiscal deficit, both before and after accounting for grants, has largely been under control. However, the level of government spending on administration is causing concern among development partners, who finance 50% of recurrent spending. Because of persistent deficits, the cost of paying interest on government borrowing has increased. Total interest payments increased by 42% in the three years to 2005/06, and were 12% of recurrent spending in 2005. The budget forecasts only a 5% increase in 2006/07, because interest payable on foreign debt is expected to fall as a result of further debt relief.

There is concern that the Government is becoming excessively dependent on grants, and that the availability of large amounts of JBSO reduces the incentive to increase tax revenue. As the proportion of aid received as JBSO increases, the risk of short-term disruption also increases. It is far easier for development partners to cut off JBSO at short notice than it is to cut off the flow of project finance. Uganda's dependence on aid to finance the budget is currently extremely high, running at about 50% of both domestic revenue and recurrent expenditure. In the long run, this dependence should be reduced by the growth of revenue arising from growth of GDP, and through sound management of expenditure. In the short run, the GOU will remain highly aid-dependent. Nevertheless, from the point of view of macroeconomic policy, the size of the deficit excluding grants is not particularly relevant. To the extent that the deficit is financed by grants, it has only a minimal effect on inflation, interest rates and the availability of savings for private sector investment.

In order to reduce the risk of short-term disruption, it would be prudent for the development partners and the Government to reach agreement not to cut JBSO in the current year (except in the event of an extreme breach of the agreed underlying conditions), and only to cut JBSO in the following year by a limited amount. This provides time for discussions on issues in dispute. A similar arrangement in the form of a Memorandum of Understanding (MoU) between JBSO development partners and the Government exists in Mozambique and was also being negotiated in Rwanda in 2004. The underlying rationale for such a MoU is that the short-term disruption created by a cut in JBSO could be extremely damaging, both in its effect on macroeconomic stability, and on the JBSO financed programmes. Having heavily invested in creating macroeconomic stability and establishing pro-poor government spending programmes, both development partners and the Government have a common interest in avoiding short-term disruption (see IDD, 2006 for detailed recommendations).

Prudent management of the economy has generated a steady increase in the financial reserves of the GOU. The Government also discounts commitments of JBSO, as a measure to guard against the risk of cuts. Government was, for example, able to maintain spending programmes in 2005/06, despite a reduction in JBSO grants of 16%, and of 6% in project support for the budget, as compared with the previous financial year. Progress in reducing aid dependency, as measured by the budget deficit as a percentage of GDP was good (Table 3-2). The deficit (excluding grants) in 2005/06 was 8.6%, very close to the 2007/08 target of 8%.

**Table 3-2: Budget outturn (Deficit) as a percentage of GDP.**

| Outturn as % of GDP | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
|---|---:|---:|---:|---:|
| Excluding grants | - 11.4 | - 11.1 | - 9.0 | - 8.6 |
| Including grants | -4.4 | -1.5 | -0.7 | -2.1 |

*Source: Statistical Abstract 2006, Table 4.3A.*

However, the 2006/2007 budget estimates reversed this improvement, with the deficit estimated at 9.2% of GDP. In FY2006/07, there was need for sharply increased expenditure to ameliorate the energy crisis and also for anticipated rehabilitation expenses in the North. It is expected that if the peace process holds in the North, the budget could be affected positively by increased aid receipts, increased tax receipts as production recovers, and the possibility of reduced military spending. Expenditure on rehabilitation is however expected to be high and would negatively impact on the budget. Reaching the targets for FY2007/08 (and the more distant target of 6.5% in 2013/14) will depend on steady progress with increasing revenue as a percentage of GDP and the control of expenditure in line with medium and long-term targets.

The budget deficit (including grants) as a percentage of GDP was also decreasing. In FY2005/06 this trend was reversed. The reduction in aid to the budget in FY2005/06 accounted for 64% of this worsening in the overall deficit. This means that, even without the drop in aid receipts, the deficit would have risen from 0.7% to 1.3% of GDP. The indications are that things will continue to get worse in the immediate future. The Budget Speech 2006 indicated a large (18%) increase in tax revenue and grants combined, and yet forecast an increase in the deficit without grants from 8.6% to 9.2% of GDP. An 18% increase in available resources implies a faster increase in aid to the budget. Some budget support has been restored and concern about the fairness of the election process has abated. However, concern about excessive government expenditure on public administration still persists. Consequently, the restoration of JBSO to previous levels is not certain, with one of the two largest JBSO development partners not expecting to restore funding to previous levels this financial year.

Total aid receipts from the main JBSO development partners were not reduced in FY2005/06, but some were switched to humanitarian projects in the North. Aid-financed rehabilitation could relieve the Government of spending on recovery in the North, provided that development partners spend on what the government would have set as priorities. There is need to agree on a comprehensive expenditure plan for the North, to be phased in with careful consideration of the physical resources available: management capacity, construction capacity, availability of skilled labour, etc. An emergency six-month action plan was launched by the President in May 2006, there is a comprehensive Peace Recovery and Development Plan 2006-09 and an Emergency Humanitarian Action Plan is being developed. The link between these planning processes are not clear and do not reflect careful planning of government expenditure that would be optimal for post-conflict rehabilitation. The World Bank (WB) reports "considerable progress" with donor harmonisation through the Uganda Joint Assistance Strategy (UJAS) during the third PEAP 2005/6-2008/9. The World Bank is a leading participant in the UJAS and an independent assessment would be more credible. The WB document does not mention donor harmonisation over rehabilitation in the North nor the fact that the majority of development partners have failed to agree to fund an approved rehabilitation plan.

In addition, the original budget estimate of expenditure for FY2005/06 was greatly exceeded. It appeared that spending ministries were putting in low estimates in order to get them accepted in the budget estimates, in the expectation of being able to get supplementary estimates accepted later in the year. Allowing supplementary estimates, which are large in relation to original estimates, is an indicator of slippage in control of government spending. If the same were to happen in FY2006/07, and the revenue forecast were to turn out to be overoptimistic as suggested, then the deficit would again increase, in contrast to the official policy of reducing it. There would have to be a sharp improvement in the control of expenditure and no additional expenditure forecasts[2] for the estimated deficit to prove realistic, yet a surplus is required if domestic debt and interest costs are to be reduced.

Table 3-3 below shows that government revenue has consistently grown faster than the sum of inflation and GDP growth rates. With inflation between 5% and 6%, and GDP growth rates of a similar magnitude, any growth in domestic revenue greater than 12% shows that the Government is increasing revenue as a percentage of GDP.

[2] There will probably be extra spending for the Common Wealth Heads of Government Meeting (CHOGM).

**Table 3-3: Government domestic revenue: annual growth and as a %age of GDP**

| Domestic Revenue | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 [a] |
|---|---|---|---|---|---|
| Amount (Ushs bn) | 1434 | 1669 | 1915 | 2241 | 2567 |
| Annual % change | | + 16.4 | + 14.7 | + 17.0 | + 14.5 |
| As % of GDP | 12.2 | 12.6 | 12.6 | 13.2 | 13.3 |

*Notes: [a] Budget forecast.*

*Source: Budget Speech, 2006.*

The increase in the ratio of domestic revenue to GDP is quite close to the target for 2007/08 of 13.5%. This progress occurred despite the scrapping of import duties within the East African Customs Union (EACU) which was expected to cause a loss of revenue of approximately UShs 50 billion. However, the three member countries agreed to a common external tariff. In the case of Uganda, this meant sharp tariff increases on a variety of goods imported from outside the Customs Union. In some cases, the tariff was increased from 7%, to as much as 25%. Additionally, a temporary protective tariff (it was 10%, is currently 8%, and will be reduced by 2 percentage points each year) was retained on approximately 50% by value of imports from Kenya. The overall impact was that the effective rate of duty on all imports slightly went up in 2005/06 hence eliminating the expected shortfall.

The budget forecast for the current financial year, of an increase of 14.5% is reasonable in the light of previous rates of annual increase. The target for 2013/14 at 15.8% for domestic revenue as a percentage of GDP may be a great deal more difficult to attain. It would require an increase of approximately half a percentage point annually. As illustrated in Table 3-3, this has not been achieved in recent years. Recent reforms in the Uganda Revenue Authority (URA) have resulted in increased tax collections, and tax revenue has proved income elastic, although not elastic enough to reach the long-term target. There have recently been a series of tax increases, including an extra percentage point on Value Added Tax (VAT), the introduction of excise duty on a number of products not previously covered (including mineral water, cement and telephone landlines), together with an increase in the rate of excise duty on beer. There must be a limit to increases in tax rates, and the protective tariff on half of imports from Kenya will decline to zero by 2010/11. Furthermore, although there is some scope for extending the range of goods and services covered by VAT, a great many of the obvious candidates have already been covered, including some public services consumed only by the more affluent part of the population such as electricity. Economic recovery in the North should however generate some additional tax revenue.

Graduated Tax collected at local level was abolished in 2005. This left local governments almost entirely dependent on grants from the central government. The abolition of this tax puts additional strain on the fiscal deficit. If some new form of local taxation is introduced revenue and deficit targets could be easily attained. Retention by local governments of some of the central taxes collected locally would make no difference. Government spending is within the targets in the PEAP (21.5% of GDP in 2007/08 and 22.5% in 2013/14. However, the overall fiscal balance is unfavourable for domestic interest rate payments to rise. Rising expenditure on public administration has exceeded estimates in each of the last nine years. In many of the new districts, the funding available only meets salary costs with limited amounts available for real operation. Moreover this additional administrative cost is met by diverting financial resources from public services.

**Table 3-4: Government expenditure: annual growth and as a percentage of GDP**

| Expenditure | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Amount (Ushs billion) | 2670 | 3068 | 3278 | 3698 | 4249 |
| Annual % change | | + 14.9 | + 6.8 | + 12.8 | + 14.9 |
| As % of GDP | 22.7 | 23.2 | 21.6 | 21.8 | 22.6 |

*Source: Budget Speech, 2006.*

### 3.3.2 Inflation

The annual rate of inflation in June 2006 was 5.5%, slightly down on the average of the previous three years (6.2%). It rose thereafter, reaching 7.5% in August 2006 due to food price increases, in part because of an outbreak of foot and mouth disease affecting the prices of beef and milk. Food crop annual inflation reached 11.7% in August 2006. The underlying annual rate of inflation, which excludes the cost of food, also increased at the beginning of the current financial year, from 5.3% in June to 6.4% in August. With lower prices of imported oil, however, the immediate prospect for inflation was for some moderation. There has been no change in the Government's basic policy stance, of maintaining a rate of inflation close to the PEAP target of less than 5%. In addition, the resumption of agricultural production in the North should have a moderating effect on inflation by increasing supply.

Unless the budget deficit, including grants, is eliminated, the cost of domestic debt could eventually become unsustainable. Furthermore, government borrowing has increased the cost of both Government and private sector borrowing. The average cost of borrowing from the commercial banks has been high in both nominal and real terms (Table 3-5). The nominal cost of borrowing has varied in the last six years between 18% and nearly 22%. The real cost of borrowing has varied between 9% and 20%. These high costs are in part because of the exceptionally high margin between the interest rates paid on bank deposits, and the rates charged by banks for lending. Such large margins are relatively common in Africa.

**Table 3-5: Real cost of borrowing and commercial bank margins – Year ended June**

| Parameter | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| Real cost of borrowing | 16.4 | 20.2 | 11.9 | 15.1 | 9.4 | 12.4 |
| Commercial bank margin | 15.1 | 19.8 | 12.6 | 15.6 | 7.9 | 13.1 |

*Source: Statistical Abstract, 2006; Bank of Uganda.*

Apart from its impact on private sector costs, the high cost of borrowing from the commercial banks in local currency has generated an increasing level of borrowing from Ugandan commercial banks in foreign currency. This has grown from UShs 18 billion in 2001, to UShs 301 billion in 2005. The interest rates charged on foreign currency denominated (mostly dollar-denominated) loans are lower. However, this exposes domestic borrowers to a foreign exchange risk. To the extent that the commercial banks do not exactly match their foreign currency-denominated assets and liabilities, they too are exposed to foreign exchange risk. In recent years, deposits in the commercial banks in foreign currency have greatly exceeded foreign currency lending. This protects the banks from depreciation of the shilling, but exposes them to appreciation. Such exposure to foreign exchange risk has caused financial crises in other countries. Borrowers in foreign currency should ideally have foreign currency earnings or assets, thus covering any risk.

There are arguments that the inflation target is too strong a constraint on GDP growth. More specifically, it has been suggested that allowing the inflation rate to rise to 10% would be manageable, generate increased growth of GDP, and therefore a reduction in poverty. This opinion is contestable. First, it is not certain that allowing the inflation rate to rise would induce greater growth. Second, a higher rate of inflation, especially after several years of maintaining inflation successfully at around 5%, would undermine confidence. It could set off inflationary expectations which would be difficult to reverse later. Overall, the benefits of a stable macroeconomic environment for production and investment greatly outweigh the uncertain gains (if any) of a higher rate of inflation.

### 3.3.3 Private sector access to finance

Outstanding credit to the private sector as a share of GDP, from both commercial banks and non-bank financial institutions has been increasing slowly (Table 3-6) and is below the average for African countries. In considering the importance of commercial bank credit, it should be noted that commercial banks in Africa seldom lend to small-scale businesses or farming households. They lend mainly to large scale businesses, because it is less risky and the administrative costs per amount lent are less for large loans than for small loans. Furthermore, commercial banks in Africa largely provide relatively short-term loans. It is reported that the maximum maturity in Uganda is about two years. Commercial banks frequently claim that they cannot make long-term loans out of short-term deposits. The fact that some commercial banks in Africa have entered the mortgage market, making 10 or 20 year loans out of the same short-term deposits, negates this claim. The more likely reasons for unwillingness to make long-term loans are that they are more risky, that the commercial bank managers are not trained to analyse applications for long-term loans nor rewarded for doing so, and that the commercial banks are making very handsome profits without taking the additional risks of lending longer (which means that there is little incentive for bank managers to be innovative).

Commercial banks in Uganda have also concentrated on the finance of foreign trade, and domestic commerce. The banks mostly confine themselves to financing the gap between ordering and paying for imports, the gap between dispatching and receiving payment for exports, and the holding of stocks by wholesalers and retailers, and, to a lesser extent, the financing of inputs for manufacturers. For example, 55% of total lending in 2004/05 was for "Trade and Commerce". Most of the lending to manufacturing (the next largest recipient of loans) financed current inputs, and almost all the lending to agriculture was crop finance rather than for capital improvements. This type of lending is both useful and necessary, but it reaches only a small proportion of producers, and only for part of their financing needs. Most producers have to rely on long-term finance of their own savings, and the savings of friends and relatives.

**Table 3-6: Credit to the private sector from financial institutions (Ushs bn) – Year ended June**

| Parameter | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Commercial banks credit to private sector, local currency denominated | 661.4 | 782.8 | 830.1 | |
| Commercial banks credit to private sector, US$ denominated, Ushs equivalent | 154.8 | 190.7 | 308.2 | |
| Total commercial bank credit to private sector | 816.2 | 973.5 | 1138.3 | 1353.0 |
| Non Bank Financial Institutions credit to private sector | | 91.0 | 117.4 | 138.9 |
| Total credit to private sector | | 1064.5 | 1255.7 | 1491.9 |
| Annual percentage change | | | +18.0 | +18.8 |
| Total as a percentage of GDP | | 8.1 | 8.3 | 8.8 |

*Source: Bank of Uganda Annual Report 2004/05 and Monthly Economic Review Sept 2006; Statistical Abstract 2006.*

Table 3-7 shows that there was healthy growth in the number of people using Tier 4 financial institutions in 2005 (for definitions and further detail see MFPED, 2006). This growth was faster than GDP growth, indicating financial deepening from this source. There was growth in both deposits and borrowing, which is important because low-income people need savings as well as credit.

Outside of the banking system, there are some sources of long-term finance, although they are also only available to the larger scale corporations. Most important is the Uganda Securities Exchange (USE). Only a small number of shares are quoted, but the total capitalisation at June 2006 was Ushs 4,262 billion. A significant part of this represents foreign investment rather than domestic intermediation. This is nearly three times the outstanding stock of lending to the private sector. Further expansion of the number of shares and of total capitalisation, would have other benefits, even with a small minority of corporations floating shares on the USE.

**Table 3-7: Increase in credit and savings activity in Tier 4 financial institutions 2004/05**

| Parameter | 2004 | 2005 | Increase |
|---|---|---|---|
| Total No. of Clients (savers or borrowers or both) | 1,808,625 | 2,065,354 | 14.2% |
| No. of Clients with savings Accounts | 1,578,972 | 1,810,810 | 14.7% |
| No. of Loans disbursed | 1,743,825 | 2,119,837 | 21.6% |
| No. of Borrowers with outstanding loans by year end | 491,443 | 564,743 | 14.9% |

*Source: MFPED, 2006 – Identify more specifically from reference list.*

The Ugandan economy needs not only long-term finance for the private sector, but additional and long-term investment instruments for savers, most notably through the intermediation of insurance companies and pension funds. Typically, insurance companies and pension funds in Africa have mostly been confined to investing in bank deposits and property. This gives relatively little diversification of their portfolios, which is risky. Reliance on bank deposits denies them participation in economic growth and a possible hedge against inflation.

### 3.3.4 External debt and reserves

The net present value of external debt as a percentage of export earnings was reduced to 150% by HIPC (Highly Indebted Poor Country) debt relief, but rose subsequently. Actual external debt outstanding is shown in Table 3-8 below.

**Table 3-8: External debt and reserves (US$ millions) – Year ended June**

| Parameter | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| External debt outstanding | 4216 | 4465 | 4416 | 4583 |
| Foreign Exchange reserves (US$ m) | | 1133 | 1326 | 1410 |
| Imports of goods and services (US$ m) | | 1653 | 2063 | 2405 |
| Months import cover | | 8.2 | 7.7 | 7.0 |

*Source: Bank of Uganda, Statistical Abstract 2006; EIU Country Report Oct 2006..*

A very large reduction in external debt is expected as Uganda has become eligible for the Multilateral Debt Relief Initiative (MDRI). This will, in due course, write off 100% of debt to the World Bank, the IMF, and the African Development Bank, amounting to more than 90% of total external debt. The IMF cancelled its share amounting to US$ 126 million in early 2006. By far the largest proportion of the external debt of US$ 3.2 billion (71% of total external debt) is owed to the World Bank. Although this has not yet been written off, it is no longer being serviced. The African Development Bank has made a firm commitment to write off the debt, but the amount outstanding is small. Much smaller amounts of debt owing to India and Libya have been rescheduled. Somewhat less generous debt relief is expected on loans from China, which applies its own equivalent of HIPC. The remaining debt owing to bilateral partners is all on soft terms, so that the debt service is not onerous. Commercial debt outstanding is negligible.

The impact of MDRI on external debt service payments will be much smaller than its impact on the total amount outstanding, because all of the multilateral debt was in the form of soft loans. The annual reduction in debt service, compared with what would have been payable without MDRI, will increase slightly in future years, because some of the loans are currently in the grace period. Overall, the external debt service ratio is sustainable.

The PEAP target for the foreign exchange reserves is to cover at least five months of imports. This target has been comfortably met in recent years (Table 3-8). Coverage has declined slightly, but remained at seven months in 2006. The target has been achieved because of a flexible exchange rate policy. With a fixed exchange rate, shocks to the balance of payments impact directly on the foreign exchange reserves. In fact, the availability of foreign exchange from exports, together with inflows of foreign aid, remittances and foreign investment, has been sufficient to sustain both a stable exchange rate (against the US$ dollar) and more than adequate foreign exchange reserves.

# 4 PILLAR 2 – PRODUCTION, COMPETITIVENESS AND INCOME

## 4.1 Overall Trends

The PEAP priorities of this Pillar include: modernisation of agriculture; preservation of the natural resource base, particularly soil and forests; better maintenance, cost reduction and private sector participation in infrastructure including roads, electricity and railways; and enhancing private sector skills and business development. In general terms, the private sector has been competitive and efficient enough for its output to grow consistently in the first two years of the latest PEAP. Similarly, both exports and imports as a proportion of GDP have increased. In particular, exports to post-conflict neighbouring countries have increased spectacularly, previously unrecorded informal exports to Kenya and DRC are as large as recorded exports, and service exports by e-mail have risen from almost nothing in 1998 to US$ 25 million by 2005. The proportion of people living below the poverty line, in both urban and rural areas, has resumed its decline. GDP growth has been an important cause of this improvement.

Agricultural growth has been well below the level of population growth, but rural poverty has reduced. It appears that an increasing proportion of subsistence farmers is selling some of their output and increasing their off-farm income. Women have participated fully in these changes. Growth of the monetary economy, and new export opportunities, has contributed to the growth of off-farm income opportunities for low-income farmers. There is a large potential gain to be derived from integrating subsistence farmers into the market, both for selling their agricultural output and finding ways of earning off-farm income. There is a need to start reducing the number of regulations and procedures so that business is freed up to do better.

These positive developments are largely attributable to macroeconomic stability. This, with liberalisation of the domestic economy and liberalisation of international trade, has created the conditions for steady growth of GDP and exports. This growth has occurred despite lack of progress with important aspects of the investment climate, and the current electricity supply crisis. Government barriers to investment, production and international trade have not been reduced, but urgent action is being taken to increase electricity supply.

Improved agricultural extension services delivery has had positive effects on farmer incomes and agricultural output as was access to roads. It is disappointing and damaging to the economy that road maintenance backlog has not been reduced and recurrent expenditure in real terms on roads has not increased in recent years. In contrast to roads, the impact of credit on agricultural output from small-scale farms is not evident. Expansion of Micro Finance Institutions (MFIs) is being undermined by unsustainable offers of cheaper government credit.

There are several indicators of damage to the environment, for example in soil, forests and fisheries. Environmental policies, even if successful, will only have an impact in the long run. Creating more off-farm income-earning opportunities would relieve some of the pressure on the environment, as would the disbandment of IDP camps in the North. The establishment of peace in the North will contribute positively to income generation, human development, poverty reduction and will reduce the pressure on the land.

## 4.2 Private Sector Participation

The ultimate objective of Pillar 2 is to identify the government policies which make the private sector more competitive, more efficient, more productive, and therefore more able to generate increased incomes and reduce poverty. The key ongoing initiatives include:

- Maintaining liberal policy to minimise risks of investment
- Minimising domestic and international barriers to trade
- Harmonising activities under Special Exports Programme with the Plan for Modernisation of Agriculture (PMA) and the Medium Term Competitive Strategy (MTCS) programmes
- Disseminating the results of gender and growth linkages
- Strategy for expansion and regulation of savings and credit co-operative societies

The most effective way of making the private sector efficient is through competition. The Government has instituted a large number of reforms directed at increasing competition, including privatisation, the liberalisation of agricultural marketing, and the liberalisation of international trade. This is effective, as shown by the steady growth of GDP, and of exports. Where monopoly remains or cannot be avoided, some form of government regulation is necessary. The regulators, and other public institutions, are more likely to be efficient if they are controlled by, or at least strongly influenced by, consumers of their services through participation in governance and dialogue. A number of public sector institutions have been created with responsibilities that appear to overlap. It would be prudent to analyse and review the functions of autonomous, semi-autonomous and other public sector institutions, with respect to responsibilities, degree of overlap and coordination (or lack of it), the most appropriate ministry to which they should be attached, adequacy of financing, and the level of client and consumer representation. In addition, a review should analyse whether each institution is delivering the services for which it was created, to the intended recipients, and whether its outputs justify its costs in terms of finance and use of skilled people.

Overall, the Government has continued to maintain a liberal economic policy, relying as far as possible on the private sector to produce goods and services, and intervening only where public sector production would be preferable to private sector production. An important aspect of generating competition in the private sector is a liberal trade policy, which forces the private sector to compete with imports. The East African Free Trade Area (EA-FTA) eliminated tariffs within East Africa, but increased the common external tariff as it applies to Uganda, and has allowed a temporary import tariff on imports from Kenya into Uganda. Liberalisation of foreign trade also forces exporters to compete better in foreign markets. *Commodity exports* simply sell at the world price, so that producers' incomes increase if they reduce their costs. They thus have every incentive to increase their efficiency. Uganda has privileged access to the European and US markets for some *manufactured goods*. This is an advantage so long as the privileged access is sustained, but reduces the incentive to become competitive in other international markets. It therefore exposes producers to the risk of losing markets, should the privileged access be withdrawn without sufficient time for producers to become competitive.

#### 4.2.1 Private sector competitiveness

Private sector production is competitive if it can sell its products in both domestic and foreign markets, at a profit sufficient to encourage production and investment. The investment climate is competitive if entrepreneurs are willing to invest. Table 4-1below shows that the chosen PEAP indicators are both positive for the first two years of the PEAP, and on an upward trend sufficient to meet the 2013/14 targets. The current rate of progress is particularly remarkable, given the electricity crisis.

**Table 4-1: Private sector competitiveness and growth**

| Parameter | 2002/03 | 2004/05 | 2005/06 | 2013/14 |
|---|---|---|---|---|
| Private investment as % of GDP | 17.0 | 16.6 | 18.7 | 21.0 |
| Total exports as % of GDP | 12.3 | 13.4 | 13.8 | 16.1 |
| Growth in: Production [a] | | 8.5 | 6.0 | |
| General government | | -5.0 | 9.6 | |
| Education and health | | 8.5 | 5.7 | |
| Other | | 5.9 | 5.3 | |
| Non-monetary | | 1.2 | 1.4 | |
| Total GDP | | 6.4 | 5.1 | |

*Source: Statistical Abstract 2006, Table 4.1N(a) and calculated from Table 4.1D. [a] Production includes agriculture, mining, manufacturing, electricity and water, construction, trade, hotels and restaurants, transport and communications; "other" consists of rents and miscellaneous.*

Production, defined as private sector production together with such public sector production as postal services and water, grew faster than GDP in the recent two years. Education and health also grew faster than GDP. Although these are public sector services, they are important inputs to private sector production. Healthier and better-educated workers are more productive. Spending on education and health are two of the most important ways in which government can support the private sector (in the long run), in addition to their contribution to human welfare.

### 4.2.2 Gender inequality

Gender inequality reduces GDP growth in many ways. One example is that women work less on cash crops if men control the income. Another is that gender differences in access to land and other assets reduce women's potential contribution to output. In Sub-Saharan Africa, it has been estimated that annual per capita growth of income would have been 0.8 percentage points higher if women's access to education and employment opportunities had been equal to those of men. This would have doubled economic growth over 30 years (Ellis *et al*, 2006). Women constituted 53% of the membership of farmer groups formed with the help of NAADS, in 2004/05. This may be less than the proportion of farming done by women, but it is nevertheless a significant development. It is important that gender focussed policies are implemented in the current Poverty Reduction Support Credit.

### 4.2.3 Investment climate

The Government has a stated intention of improving the investment climate in Uganda as an essential element in generating rapid economic growth in the private sector. In turn, this is the most important way in which income poverty can be reduced. The World Bank's *Doing Business* surveys provide an objective assessment of what progress Uganda has made. Overall, Uganda's ranking got worse from 103 in 2005 to 107 in 2006 (Table 4-2), out of 175 countries surveyed. Uganda's ranking has got worse on six counts, and better on only two, with a net worsening of 11 ranking positions. In Sub-Saharan Africa, Uganda ranks 11$^{th}$ out of 45 countries. Unfortunately, Sub-Saharan Africa is the least attractive region of the global economy for foreign investment. This ranking may place Uganda in a comparatively strong position for those foreign investors committed to investment in Africa, but does not mean that the country is an attractive place for investors considering all possible locations.

**Table 4-2: Failure to improve business climate: ranking out of 175 countries**

| Parameter | 2005 | 2006 | Change |
|---|---|---|---|
| Doing Business (overall rank) | 103 | 107 | -4 |
| Starting a Business | 107 | 107 | 0 |
| Dealing with Licenses | 109 | 110 | -1 |
| Employing Workers | 7 | 8 | -1 |
| Registering Property | 164 | 166 | -2 |
| Getting Credit | 160 | 159 | +1 |
| Protecting Investors | 58 | 60 | -2 |
| Paying Taxes | 46 | 43 | +3 |
| Trading Across Borders | 159 | 160 | -1 |
| Enforcing Contracts | 67 | 71 | -4 |
| Closing a Business | 44 | 44 | 0 |

*Source: World Bank, Doing Business (2007).*

The absolute number of procedures for each business initiative is large (Table 4-3). This acts as a major disincentive to investors and creates opportunities for corruption. Worse, it could lead to attracting the wrong investors, those competent at dealing with bureaucracy including those willing to participate in corrupt procedures rather than those competent at investing and running successful and competitive businesses.

**Table 4-3: Failure to improve business climate: no reduction in procedures**

| Parameter | 2005 | 2006 | Change |
|---|---|---|---|
| Starting a business (procedures) | 17 | 17 | None |
| Dealing with licences (procedures) | 19 | 19 | None |
| Registering property (procedures) | 10 | 13 | Worse |
| Credit information index | 0 | 0 | None |
| Investor Protection Index | 5.3 | 5.3 | None |
| **Number of tax payments** | 31 | 31 | None |
| Documents for export | 12 | 12 | None |
| Documents for import | 19 | 19 | None |
| Contract procedures | 19 | 19 | None |
| Time to close a business (years) | 2.2 | 2.2 | None |

*Source: World Bank, Doing Business (2005, 2006).*

The World Economic Forum's Competitiveness Index (Table 4-4) confirms the worsening of Uganda's business climate. Uganda's competitiveness ranking slipped from the 79$^{th}$ position out of 103 countries in 2004/05 to 113$^{th}$ out of 125 countries in 2006/07 (from the 77$^{th}$ percentile to the 90$^{th}$ percentile).

**Table 4-4: Global competitiveness surveys 2003-2007 (percentiles)**

| Parameter | 2002/03 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|
| Macroeconomic environment | 70 | 73 | 82 | 53 |
| Public institutions | 82 | 84 | 81 | 80 |
| Technology | 76 | 75 | 70 | 75 |
| Overall ranking | 78 | 77 | 88 | 90 |

*Note: ranking's converted to percentiles because of the changing size of the sample.*

*Source: World Economic Forum, Global Competitiveness Survey 2006.*

### 4.2.4 Real exchange rates and exports

In recent years, macroeconomic policy has focussed on preventing appreciation of the real exchange rate. The "Real Effective Exchange Rate" for Uganda has steadily declined in recent years, amounting to about 40% in total between 1997 and 2005. As with all averages, this may conceal substantial variations in bilateral real exchange rates with key trading partners, and does not include trade in services, especially tourism. Nevertheless, the decline in the real exchange rate is consistent with movements in the bilateral exchange rate with Uganda's most important trading partner (Kenya). Exports of goods and services in US$ terms increased by more than 17% in the two years to 2005/06, suggesting strongly that exchange rate policy has been broadly successful.

It is absolutely essential for Uganda to monitor real exchange rates against Kenya, Tanzania and Rwanda because of the development of the East African Community free trade area, and against DRC and Sudan with whom trade is growing rapidly. The Bank of Uganda and the Bureau of Statistics publish the exchange rate against the US$. It may be useful for official statistics to regularly include exchange rates against currencies of importance to Ugandan trade in goods and services.

Kenya is still Uganda's largest export market in Africa. Exports to Kenya increased by 23% during 2001-05, despite a large depreciation of the real bilateral exchange rate. In contrast, exports to other Common Market for Eastern and Southern Africa (COMESA) countries increased by 181% over the same period and accounted for 31% of total exports (Table 4-5). Uganda, like all landlocked countries, faces a very significant comparative disadvantage in exporting manufactured goods, because of the excessively high cost of transport.

Kenya has an advantage over Uganda from earlier industrialisation. Uganda, in its turn, has an advantage over DRC, Rwanda and Sudan, because Uganda recovered earlier from conflict. Uganda also has a competitive advantage because Eastern Congo and Southern Sudan are even more landlocked than Uganda. Thus, exports to these neighbours may continue to grow rapidly post-conflict.

The export statistics would appear different if full account was taken of re-exports and transit trade. Uganda gains some income from re-exports and transit trade. It might therefore be valuable to conduct a more detailed analysis of the trade statistics than has been possible in this review.

**Table 4-5: Uganda: officially recorded exports to selected African countries (US$ millions)**

| Country/Region | 2001 | 2005 | % change |
|---|---|---|---|
| Kenya | 59.1 | 72.4 | + 22.5 |
| DRC | 8.8 | 60.4 | + 600.3 |
| Sudan | 9.2 | 50.5 | + 448.9 |
| Rwanda | 16.6 | 36.1 | + 117.5 |
| Burundi | 4.8 | 20.8 | + 333.3 |
| Other COMESA | 16.9 | 9.1 | - 46.2 |
| Total COMESA | 122.0 | 249.3 | + 104.3 |
| COMESA excl. Kenya | 62.9 | 176.9 | +181.2 |
| Tanzania | 6.7 | 15.4 | + 129.9 |
| South Africa | 24.1 | 9.8 | - 59.3 |
| Other Africa | 9.4 | 13.7 | + 45.7 |
| Total Africa | 155.5 | 288.2 | + 85.3 |
| Rest of the world | 296.3 | 524.7 | + 77.1 |
| Total exports | 451.8 | 812.9 | + 79.9 |

*Source: Statistical Abstract 2006, Table 4.2F.*

### 4.2.5 Informal trade

There is a great deal of informal trade between Uganda and some of its neighbours. A recent survey of informal trade covered 20 weeks in ten of the months between August 2004 and December 2005, for five neighbouring countries. Kenya and DRC accounted for 90% of informal exports to the neighbours, and for 96% of informal imports (Table 4-6). There was a large positive balance of informal trade. Informal exports were as high as 90% of the value of recorded exports to DRC and even exceeded the recorded exports by 7% in the case of Kenya. An earlier survey of informal trade between Kenya and Uganda for 1994/95 (Akello-Ogutu, 1997), showed that Uganda had US$ 84.3 million of informal exports to Kenya which implies a decline, as compared to recorded exports that have show a steady rate of increase. Informal exports to the other three countries were much less significant; being only 14% of officially recorded exports.

There was a sharp difference in the type of products exported to DRC (61% industrial products), and those exported to Kenya (only 21% industrial products), a good indicator of the level and state of industrialisation in the three countries. The other exports in both cases were mainly agricultural products.

**Table 4-6: Informal trade with neighbouring countries 2004-05 (US$ millions)***

| Country | Exports | Imports |
|---|---|---|
| DRC | 54.1 | 13.0 |
| Kenya | 77.2 | 33.8 |
| Rwanda | 5.5 | 0.5 |
| Sudan | 6.8 | 0.5 |
| Tanzania | 2.1 | 0.5 |
| Total | 145.6 | 48.6 |

*Note: * trade identified by the cross border survey grossed up by a factor of 52/20.*

*Source: Bureau of Statistics (2006) Informal Cross Border Trade Survey Report, 2006, Table 3.*

#### 4.2.6 Export diversification

Between 2001 and 2005, the value of non-traditional exports increased by nearly twice (96%) as much as traditional exports (54%). Other products increased by 309%, (as compared with an increase in total exports of 55%) rising from 10% of total exports in 2001 to 23% in 2005. A partial breakdown of "other" exports provided by MFPED indicated the significant items in 2004/05 to be "base metals and products" (16%) followed by cocoa beans (5%), soap (5%), fruits and vegetables (4%) and vanilla (3%).

#### 4.2.7 Electronic service exports

The use of e-mail and other electronic forms of transport and communication eliminates a significant cost component in the export business, because the marginal cost of electronic transport is effectively zero. This type of service export also virtually has no restrictions making it easy for entry of new investors. There are plenty of low technology possibilities and initial capital requirements are small in most cases.

Uganda's recorded Information Communication and Technology (ICT) exports increased from US$ 0.2 million in 1997/98, to about US$ 25 million in 2004/05, involving 17 firms. One firm is exporting software developed in Uganda to a number of African countries. Public investment to improve infrastructure to increase the speed of access to the Internet and downloading capacity, reliable power supply and basic ICT training would greatly facilitate this trade. The new ICT Ministry and policy are steps in the right direction.

#### 4.2.8 Import substitution

The ratio of imports to GDP increased from 23% in 1994, to 31% in 2005 as reported by the International Financial Statistics (IFS). Although such statistics are affected by, among other things, international price movements, especially of oil, the trend appears to be adverse. Imports of petroleum products in 2005 were only 2.2% of GDP, so even a much lower oil price would not greatly affect the trend. Ugandan producers of import substitutes seem not to have taken advantage of favourable real exchange rates, whether measured bilaterally against Kenya, or taking a broad weighted average.

## 4.3 Agricultural Production

### 4.3.1 Agricultural sector growth

The agricultural sector provides a livelihood to about 86% of the population, and employment to about 77% of the labour force living in rural areas. Over 90% of exports of goods are agricultural products. Of those heads of households self-employed in the agricultural sector, 81% are poor. The agricultural sector is, therefore, central to the country's objective of poverty reduction. The PEAP did not set a target for agricultural growth, but a 6% target was agreed upon under the Comprehensive Africa Agricultural Development Programme (CAADP). Recent growth in the agricultural sector has been disappointing. The agricultural growth rate has dropped from 2.3% in 2002/03 to 0.4% in 2005/06 (Table 4-7). Within agriculture, subsistence (non-monetary) output increased only 0.3% annually on average (Table 4-8). Total non-monetary output increased only slightly faster at 0.5%, well below the growth rate of the population (3.0% for the rural population, 3.2% for total population). Forestry and fishing did much better than the average, but are currently too small to offset declining growth rates in other sub-sectors. Drought, pests and diseases, loss of soil fertility and pressure on cultivable land from population growth are some of the reasons for poor performance of the sector. Average land holdings decreased from 2 ha per household in 1992/93, to 1.2 ha in 2005/06 as reported in the UNHS, 2005/06). More agricultural land would become available if peace in the North is restored and some people who have migrated to other regions return, reducing pressure on land in these areas.

**Table 4-7: Agricultural Sector Growth**

| Growth Rate | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|
| Agricultural sector (%) | 2.3 | 0.8 | 1.5 | 0.4 |
| Cash crop production (%) | 4.5 | 0.5 | 4.1 | -7.3 |
| Food crop production (incl. subsistence) (%) | 1.2 | 1.6 | 0.7 | 0.3 |

*Source: Statistical Abstract 2006, Table 4.1D (figure for 2002/03 revised from PEAP).*

Despite poor agricultural sector performance, rural poverty has declined. The rural population is becoming less dependent on growing food for its own consumption. Household heads mainly dependent on agriculture were 71% of the total in 2000, but only 58% in 2003, while household heads self-employed outside agriculture rose from 12% to 25% over the same period. Other poverty-related indicators include the following:

- An increasing proportion of "subsistence" farmers have acquired non-agricultural sources of income.
- 76% sold some output in 2000 (the range was from 63% to 81%), meaning that only 24% were pure subsistence farmers.
- An increasing proportion (currently 80%) of subsistence farmers are selling at least some of their food production. This has in many cases resulted in less control by women over food crops, with possible negative implications for food security
- Labour is moving out of agriculture into full and part-time employment; in the ten years to 2003, the proportion of the labour force self-employed in agriculture fell by 5 percentage points, while the proportion self-employed in non-agricultural sectors rose by 14 percentage points (2.6% to 16.9%).
- The proportion of women self-employed in non-agricultural sectors rose from 24% to 40% over the same period, so that women participated fully in this major structural change.

The Plan for Modernisation of Agriculture (PMA) was developed as the overarching framework for agricultural development. The PMA should be an integral part of the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), which is harmonised with the PEAP, yet it is reported that PMA is a semi-autonomous institution with its own secretariat. The background document to the PMA annual review (DCI, 2006) gives an account of progress on PMA implementation and on PEAP indicators (Tables 4-9 and 4-10).

**Table 4-8: Contribution of agriculture to GDP (2002/03-2005/06) (billion Ushs)**

| Sub-sector | 2002/03 | 2005/06 | Annual Growth (%) |
|---|---|---|---|
| **Monetary** | | | |
| Cash crops | 392 | 380 | -1.0 |
| Food crops | 1.132 | 1.180 | 1.4 |
| Livestock | 301 | 311 | 1.1 |
| Forestry | 65 | 76 | 5.4 |
| Fishing | 188 | 208 | 3.4 |
| *Sub-total monetary* | *2.078* | *2.156* | *1.3* |
| **Non-monetary** | | | |
| Food crops | 1.233 | 1.243 | 0.3 |
| Livestock | 168 | 166 | -0.4 |
| Forestry | 101 | 111 | 3.2 |
| Fishing | 24 | 26 | 2.8 |
| *Sub-total non-monetary* | *1.525* | *1.547* | *0.5* |
| Agricultural GDP (AgDP) | 3.603 | 3.703 | 0.9 |
| GDP all sectors | 10.098 | 11.949 | 5.8 |
| AgDP as %age of GDP | 35.7 | 31.0 | |
| Population: m | 24.9 | 27.4 | 3.2 |

*Source: Statistical Abstract 2006.*

**Table 4-9: Performance of the line ministries and agencies in implementation of PMA Pillars**

| PMA Pillar | Complete | Partial | Not done | Total |
|---|---|---|---|---|
| Agricultural research and technology development | 3 | 2 | 1 | 6 |
| Agricultural advisory services | 5 | - | - | 5 |
| Agricultural education | - | 1 | - | 1 |
| Access to rural financial services | 1 | - | - | 1 |
| Marketing and Agro-processing | 1 | 3 | 1 | 5 |
| Physical infrastructure | 4 | 2 | - | 6 |
| Sustainable use and management of natural resources | 1 | 10 | 1 | 12 |
| Institutional reforms | - | 2 | 1 | 3 |
| Cross-cutting undertakings | 4 | 9 | 2 | 15 |
| Total | 19 (35%) | 29 (54%) | 6 (11%) | 54 |

*Source: DCI, 2006, p. 6.*

**Table 4-10: Progress of implementation by strategic objective of the Policy and Results Matrix**

| Policy Action | Total | Complete | Partial | Not done |
|---|---|---|---|---|
| Increased and more efficient private sector production | 8 | 2 | 3 | 3 |
| Increased and more efficient agricultural production | 25 | 9 | 10 | 6 |
| Increased and sustainable forestry production | 3 | 2 | - | 1 |
| Straighten infrastructure in support of increased production of goods and services | 18 | 5 | 8 | 5 |
| Strengthened Environment and Natural resources (ENR) management regime in support of sustainable production of goods and services | 9 | 3 | 3 | 3 |
| Strengthened financial sector in support of increased production of goods and services | 3 | 1 | - | 2 |
| Total | 66 | 22 | 24 | 20 |

*Source: DCI, 2006, p. 29.*

The single most significant policy instrument seems to be the reforms to agricultural extension. The evidence is that where households applied extension advice, the result was significantly positive. An evaluation published in 2005 noted that "there is already a clear indication that NAADS is increasing the availability and quality of agricultural advisory services more effectively than the previous system, and that NAADS farmers are adopting technologies that lead to real improvements in yields and farm incomes". In addition, it is reported that NAADS trained 66% of district based service providers, drew up an action plan with the National Environment Management Authority (NEMA) on environmental management, designed and implemented a more detailed monitoring and evaluation framework, and established an agribusiness unit.

NAADS does not reach all districts or all sub-counties in districts where it is active (Table 4-11). Further, a survey in May 2006 showed that "32% of the sub-counties surveyed had not co-funded the NAADS budgets" because of scarcity of finance made worse by the abolition of Graduated Tax (DCI, 2006). It is therefore desirable that the NAADS is sustained, with adequate financing. The level of effectiveness will greatly depend on the speed with which new extension officers are trained, how well managed they are, and through the experience gained. The roll out of NAADS seems to have stretched beyond the present capacity (DCI, 2006: 11). New districts were created without additional funding, and the low capacity of Private Service Providers resulted in inadequate feedback of farmers' needs. There were also problems of input supply following increased demand from farmers influenced by the Integrated Support Farmers Groups programme.

**Table 4-11: NAADS Coverage**

| NAADS Coverage | 2002/03 | 2003/04 | 2004/05 | 2007/08(a) |
|---|---|---|---|---|
| Districts | 10 | 21 | 29 | 40 |
| Sub-counties | 100 | 153 | 242 | |
| % of sub-counties covered in a district, on average | 42% | 44% | 55% | |

*Note: (a) target set by MAAIF, will change because of creation of additional districts.*

*Source: MAAIF, 2005, Table 1, p.16.*

Agricultural research and agricultural extension are absolutely fundamental to reducing rural poverty (together with growth of non-agricultural income opportunities for the rural population). The relatively slow progress with agricultural sector policy reform is therefore of some concern. Reform of the agricultural research system was held back by the passing of the new act, which only received presidential assent in September 2005. The NARO Council was established in January 2006, and various committees, zonal fund secretariats, and an Agricultural Research Trust Fund established. Research funding is still inadequate. The MTEF, for example, provided only 67% of the National Agricultural Research System (NARS) reform programme requirements for 2005/06.

The delays in policy relating to agricultural research are of particular importance, because of the tendency of agricultural research stations in Africa to conduct research on inappropriate topics. Historically, many research stations have studied crops, agricultural systems, and agricultural technology, of interest only to large-scale farmers. Many agricultural research stations bear absolutely no resemblance to the fields farmed by low-income farmers. Given the relative success of NAADS, this criticism may not apply to the advice currently being given, but strong links between research and NAADS should be established urgently. Better communication of research results and of farmers' needs could substantially improve impact. The capacity to translate potential demand by farmers, into effective technologies to be used by farmers, is still low, although "a framework has been developed and linkage established between NAADS and NARO at National and Zone levels" (DCI 2006: 8).

The Government's macroeconomic and other policies have contributed to the growth of monetary GDP, which in turn has made it possible for farmers to increase their off-farm incomes and to sell more of their agricultural output. Peace in Eastern DRC and Southern Sudan has increased opportunities for export, where little opportunity existed before. This includes exports of food, which is produced entirely by small-scale farmers. These export opportunities are in relatively remote parts of Uganda, where opportunities to market agricultural output were previously almost non-existent, and where poverty was more severe.

Finally, education has been found to have "a large and positive impact on agricultural production" (Gautam, 2006). In Uganda, this impact dates from education undertaken in the past. Increased primary school enrolment (by 12.5% from 2001 to 2004), especially the higher female enrolment (15.2%), is likely to positively impact on agriculture. Subsistence agriculture is dominated by women and female-headed households are more likely to be poor. Incorporating agricultural education into primary and secondary schools faces a number of problems, including delayed approval by the Cabinet, delayed integration into the Education Sector Investment Plan, prioritisation of Universal Primary Education (UPE), inadequately funded agricultural colleges, and low commitment from teachers and students to school gardens. It is debatable as to whether it is beneficial to teach agriculture in secondary schools. Many students (and parents) see reaching secondary school as a way out of farming. At best, they might become extension officers, or be employed as managers on large-scale modern farms.

### 4.3.2 Marketing of agricultural products

The proportion of farmers depending entirely on subsistence output is declining and an increasing number of farmers are selling part of their output, including food output (Table 4-12). There has also been an increase in the percentage of total agricultural output exported, all of which point to increased competitiveness and efficiency. Indirectly, improved marketing is also an indicator of improved infrastructure, especially feeder roads. There is a strong influence of better roads on adoption of better farming practices, while distance from roads may be a disincentive. Further, marketing margins have fallen despite higher fuel prices. This is indicative of greater marketing efficiency which in turn is in part attributable to better roads (Gautam, 2006).

**Table 4-12: Increased marketing of agricultural products**

| | 2002/03 | 2004/05 | 2005/06 | 2007/08 | 2013/14 |
|---|---|---|---|---|---|
| Agricultural product marketed as % of total agricultural production | 56.3 (a) | 58.5 | 58.2 | - | 70.0 |
| Agricultural exports as % of total value of agricultural output | 18.9 (b) | 18.1 (b) | - | - | - |

*Notes: (a) PEAP gave 20%, but Statistical Abstract 2006 gives 56.3%, for 2002/03. (b) total exports in shillings, and agricultural exports in US$, from Statistical Abstract 2006, exports converted to dollars using average exchange rates from International Financial Statistics.*

Progress with government support for agricultural marketing was delayed by the passing of the Warehouse Receipt System (WRS) Act, finally enacted in 2006. As a result, the Marketing and Agro Processing Strategy is not fully operational, it does not address marketing of inputs, and most farmers do not know how the WRS operates. Profitable opportunities for agricultural marketing do not need help from the government, and there is no justifiable reason for subsidising unprofitable ones.

### 4.3.3 Access to land

The PEAP noted that less than 1% of households have land titles and only 12% of land is titled. The target was to increase titled land holding to 17% and 25% for 2007/08 and 2013/14 respectively and to 1.5% of households in 2007/08, and 3% in 2013/14. No information was available on progress towards these targets. Even when achieved, the overwhelming majority of farmers will not have a clear title to their land.

Acquiring a land title remains cumbersome and costly, with an inefficient and under-resourced land registry. On average, it takes 48 days to register property in Uganda (*Doing Business, 2007*). Manual sorting and indexing of records has achieved 75% completion in Kampala, and 29% of 800,000 records have been computerised in the Kampala Mailo registry. This has reduced the time for a search from 12 to 5 days for a manual search and to 30 minutes where data has been computerised. A Client's Charter is being developed in the Ministry responsible for land affairs in addition to cadastral update, geodetic network, demarcation of land at the community level (8 pilot projects), government land inventory, and the development of a public information campaign. The land records are being decentralised to districts and construction of new land offices has started in four districts. Training in land management has occurred in 30% of the District Land Boards, and land demarcation has been initiated in 5 districts.

A land policy is being developed and a land use policy submitted to the Cabinet. Land policy issues have always been controversial and consultations are always inconclusive. There will inevitably be delays on finalisation and implementation. A *Land Fund* has been created although regulations are not yet in place. Because of political pressure, the Fund has started buying from freeholders in Kibaale and the Acholi region. In Kibaale, the Fund has been buying from absentee landlords. Selling to tenants has not commenced. Many of the tenants think they should not be made to pay for land occupied by several generations of the same family.

Women have been severely disadvantaged in their legal title to land. The current Land Act specifies that land cannot be disposed of without the consent of the spouse, and this has been incorporated in the relevant land transaction forms. A review of the Mortgage Act includes gender issues. The *Land Tribunal* was transferred from the Ministry of Lands and Environment to the Judiciary, where activity has currently ceased.

## 4.4 Fisheries and Forestry Production

Fishery production and fishery exports have been growing at an increasing rate (Table 4-13). MAAIF projected a target of US$ 341 million for exports by 2007/08. These increased by 63% in the three years to 2006, reaching US$ 143 million indicating that the target set can not be attained. There are concerns about depletion of fish stocks, but there are no wholesome published indicators of how serious this problem is. A survey of stocks in lakes and rivers and of fish caught per unit of effort is needed to determine the status. The PEAP also set a target for the establishment of Beach Management Units intended to lead to responsible management of fish stocks. This target has been met. The National Fish Policy has been completed but its implementation has not started.

There has been decline in forest cover and an increase in the distance travelled to fetch firewood, since 2002/03. The rural population increased by 9.3% in the three years to 2006, which has increased the pressure on land and forestry resources. In 2004, it was estimated that natural resource degradation was costing the country approximately 17% of gross national income per year, of which 6% was attributed to forest degradation, and 11% to soil degradation. There was a notable reduction in the average age of trees.

**Table 4-13: Fisheries and forestry production, 2002 – 2014.**

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2007/08 | 2013/14 |
|---|---|---|---|---|---|---|
| Growth rate of fisheries sector (%) | 3.8 | | 2.1 | 5.7 | | |
| Value of fish exports (US$ m) | 88.0 (b) | | 103.3(b) | 142.7 (b) | 341 (a) | |
| Growth rate of fish exports(%) | 0.2 | | 17.3 | 38.1 | - | - |
| Number of functioning Beach Management Units | 100 | | 354 | 700 | 700 | - |
| % of land under forest cover | 24 | 15 | 14 | 13 | 27 | 30 |
| Distance traveled by villagers to firewood source (km) | 0.73 | | | 1.0* | 0.5 | 0.5 |

*Notes: (a) Department of Fisheries target; (b) fish exports for calendar years;* * - 7 km in Northern Uganda.

*Source: Statistical Abstract 2006.*

### 4.5 Credit for Agricultural Production

Recent trends indicate that availability of credit has no discernible impact on agricultural production. "The statistical analysis of adoption decisions suggests that infrastructure has a strong and consistent impact on adoption of modern technology, as do effective delivery of advisory services; but **credit consistently fails to show up as a determining factor**." (Gautam, 2006: 33, emphasis added). This is further supported by evidence on the use of fertiliser. “It is not evident that cost is the binding constraint in the use of fertilizers [...] farmers are incurring as high a cost (on a per acre basis) using other inputs that cost as much or more than fertilizers ]…] **It is not at all clear under these circumstances that credit for fertilizer will increase its use.”** (World Bank: *Beyond Recovery*, 2006: 89, emphasis in the original). These are national generalisations and may conceal regional and sub-sectoral variations.

The above suggests that government spending should put less emphasis on increasing the availability of credit. Agricultural extension and roads have, for example, been shown to be more effective and should receive more attention. The direct involvement of Government in providing finance to MFIs or farmers has never been successful. Cooperative credit organisations tend to be destroyed by excessive external financing and loans from government institutions to farmers has consistently failed throughout Africa. Moreover, if government-supported or government-owned financial institutions provide credit at subsidised interest rates, or loans are subsidised through repayment not being enforced, other credit institutions are badly damaged. Fewer people will borrow from them, and recovering loans will become much more difficult. There is a general perception, from the time of the last election, that cheaper government money under “Prosperity for All” would be made available. This is particularly unfortunate as it is harming the operations of MFIs. Bottom-up establishment of credit associations (for example Savings and Credit Cooperative Organisations - SACCOs) should be encouraged, as they have an important role to play in the growth of off-farm economic opportunities in the rural areas. Government support should be limited to providing technical assistance, for example standard constitutions, regulations and accounting systems.

### 4.6 Production of Non-agricultural Goods and Services

#### 4.6.1 Growth of MSMEs

Non-agricultural goods and services are produced by Micro, Small & Medium Scale Enterprises (MSMEs), defined as those businesses employing less than five people. This may include individuals surviving with a low and precarious income (including street begging), which is not a growth area contributing to national development. The definition also includes businesses producing goods and services, for which demand may grow, which therefore have a chance of growing, employing more people, and possibly joining the formal sector. There is limited information available on the value of production of the MSMEs to establish the trend for the PEAP indicator of MSMEs as a percentage of GDP. Evidence from other countries in Africa indicates that even relatively successful small businesses avoid formal registration, partly to avoid tax, but also because of the lengthy and expensive procedures required. Every procedure, involving contact between a small business and a government agency, creates an opportunity for corruption. There are no statistics on corruption, as with other illegal activities. However, in a survey of perceptions of corruption by Transparency International, Uganda was ranked at the 67$^{th}$ percentile in 2006. Reducing the burden of regulations would be an important step in reducing corruption and help MSMEs to move into the formal sector and become subject to the law (for example because of safety and health at work, and the payment of taxes).

#### 4.6.2 Tourism and mining

There has been a steady growth of tourist visits to Uganda (Table 4-14). Visits from neighbouring countries, are more likely to be to friends and family, involving relatively low levels of expenditure. The proportion of high spending tourists (and business visitors), who contribute most to the economy, is probably much higher among those from Europe, America and Asia. The contribution of mining to GDP has been negligible: 0.7% of GDP in 2005. Some mining is small-scale and informal, and therefore likely to be left out of official statistics. Small-scale mining is labour-intensive and its contribution to providing livelihoods is probably larger than indicated by its share of GDP. Exports of gold are recorded as Uganda's third largest commodity export (after coffee and fish). The discovery of commercial deposits of oil has generated a lot of anxiety and debate on the need for transparency in negotiating mining agreements, and in managing the expected flow of government revenue. The Mineral Sector Development Programme has been formulated.

Table 4-14: Tourist arrivals ('000s) and expenditures (US$ million), 2001-2005

| Country of Usual Residence | 2003 | 2004 | 2005 | Change (%) |
|---|---|---|---|---|
| Kenya | 114 | 220 | 138 | 21.1 |
| Rwanda | 50 | 65 | 81 | 62.0 |
| Tanzania | 31 | 68 | 51 | 64.5 |
| Other Africa | 40 | 54 | 67 | 67.5 |
| *Total Africa* | *235* | *407* | *337* | *43.4* |
| Europe | 39 | 49 | 62 | 59.0 |
| America | 16 | 23 | 28 | 75.0 |
| Asia | 11 | 18 | 20 | 81.8 |
| Other | 7 | 15 | 19 | 171.4 |
| *Total non-Africa* | *73* | *105* | *129* | *76.7* |
| TOTAL | 306 | 512 | 467 | 52.6 |
| Tourist expenditure | 265 | 321 | 327 | 23.0 |

*Source: Statistical Abstract 2006, Table 3.7 I.*

## 4.7 Infrastructure Support to Production of Goods and Services

### 4.7.1 Energy

Energy is a critical element in the PEAP. Household incomes are increased by 8-11% with the supply of electricity in a village, presumably through agro-processing and other off-farm activities, as little electricity is used in small-scale farming. The percentage of rural households with access to electricity has increased from 3% in 2002/03, to 8% in 2005/06. This rate of progress is considerably more than adequate to reach the target of 10% in 2013/14, but not enough to cater for the majority of rural households. Electricity is relatively unimportant for agricultural production, accounting for only 0.2% of the cost of production, compared with an average of 3.0% for all sectors. Electricity is more significant for off-farm income, for example in rural processing of agricultural output. Electricity accounts for 7.4% of costs in all manufacturing.

At end-2005, water levels in Lake Victoria were at the lowest level since the construction of the Owen Falls Dam in 1954. Use of water for energy had to be regulated to avoid draining the Lake to an environmentally dangerous level. Power generation fell from a peak of 380 MW to 135 MW in mid-2006 and electricity tariffs continued to increase. This resulted in frequent load shedding, which in turn reduced the rate of growth of GDP in 2005/06. The Government incurred a large bill in subsidies - a tax waiver on diesel benefited 137 local companies. In March 2007, negotiations for the building of additional hydroelectric capacity at Bujagali were complete, with a target of new capacity coming on stream in 2011. There are plans to generate additional power from other small dams, amounting to 50 MW by 2010, and to reduce system losses which are estimated at 36%. However, the current gross shortage of electricity supply will continue in the medium term, and the short-term increases in supply generated by new thermal capacity will be more expensive than hydroelectric supply. The PEAP objective of "Reliable and adequate power supply for economic growth" will not be realised at least until 2011 when significant new hydroelectric power supply is scheduled to be available.

### 4.7.2 Transport network

There is a high rate of return to the rehabilitation of district and feeder roads, and a strong correlation between access to roads and agricultural output. Government recurrent spending on roads (Table 4-15) has fallen in real terms and as a percentage of recurrent expenditure (from 1.9% in 2002/03 to 1.5% in 2004/05). The approved estimate for 2005/06 shows no increase in the share of road maintenance. The Road Fund to finance roads maintenance is awaiting the formulation of the Road Fund Bill. There was a very large increase in development expenditure on roads in 2004/05 (115% in real terms over the previous year). The same higher level of spending was budgeted for in 2005/06. While this may be a positive indicator, there is a danger that the availability of finance for new roads may cause maintenance to be neglected.

**Table 4-15: Government spending on roads at 1997/98 prices (Ushs billion)**

| Spending on Roads | 2002/03 | 2002/03 | 2004/05 | 2005/06 |
|---|---|---|---|---|
| Recurrent | 21.2 | 15.9 | 16.8 | 19.1 |
| Development | 58.4 | 63.7 | 136.8 | 132.4 |

*Notes: (a) figure for 2005/06 is the approved budget estimate.(b) Nominal spending deflated by the Consumer Price Index.*

*Source:*

The economic return to maintenance has been shown to be high, and it would make little sense to build new roads when existing roads are not being maintained properly. Table 4-16 indicates that maintenance targets are not being met. The budget for road maintenance was fully spent in 2005/06, further confirming that it was not adequate. Inadequate and declining maintenance budgets have resulted in a large maintenance backlog. There is insufficient counterpart funding for road projects to improve absorption capacity. A huge domestic arrears bill for completed and ongoing road projects has accumulated, and the need for drainage structures on the entire road network of the country is increasing rapidly but costs are exceeding resources.

**Table 4-16: Road maintenance: actual compared with programme, 2004/05 and 2005/06**

| Road Maintenance | 2004/05 Planned (km) | 2004/05 Achieved | 2005/06 Planned (km) | 2005/06 Achieved |
|---|---|---|---|---|
| *District roads* | | | | |
| Manual routine | 18 026 | 93% | 18,000 | 93% |
| Periodic (re-gravelling) | 748 | 71% | 450 | 51% (a) |
| Rehabilitation | 1276 | 90% | 400 | 97% |
| *Urban roads* | | | | |
| Periodic | 250 | 58% | 250 | 58% |
| Rehabilitation | | 3.7km | 9.5 | 66% |
| *Community access roads* | | | | |
| Periodic | 250 | 74% | 900 | n.a. |
| Rehabilitation | n.a. | n.a. | n.a. | n.a. |

*Source: MFPED Annual Budget Performance Report FY 2005/2006.*

Rail haulage was targeted to increase from 863,000 tonnes in 2002/03 to 2 million tonnes in 2013/14. Table 4-17 below shows that freight carried has declined in the last two years. The joint concession with Kenya of the railway (in April 2006, for 25 years) is expected to increase capacity and lower costs. This is essential to reduce Uganda's comparative disadvantage as a landlocked country in importing and exporting goods outside the region. It is argued that the cost of petroleum products in Uganda is increased by having neither a pipeline from Eldoret to Kampala, nor a railway capable of competing with it. Further, it is argued that the poor quality and high cost of rail services result in more goods being imported and exported by road, which increases costs.

Airport utilisation is increasing and on target. The Civil Aviation Authority (CAA) has plans to spend some US$ 41 million by 2009/10, to cope with an estimated three times the cargo handled in 2004. Investment is needed in increased cold storage, other airport facilities and access roads.

**Table 4-17: Annual rail and air freight**

| Rail and Air Freight | 2002/03 | 2004/05 | 2005/06 | 2007/08 (a) | 2015 (a) |
|---|---|---|---|---|---|
| Annual Rail haulage/ tonnage | 863,000 | 870,881 | 755,043 | 1,565,000 | 2,004,000 |
| Annual growth of air cargo exports (%) | 12.5 | 8.7 | 12.4 | | |
| Annual growth of air passenger traffic (%) | 7.5 | 9.0 | 12.0 | 7.5 | |

*Note: (a) target.*

*Source:*

### 4.7.3 Water for production

Table 4-18 below shows that progress with physical construction of water facilities in 2005/06 was satisfactory. Information was not available on the physical capacity of these structures or the target increase in area irrigated. Contractors for the rehabilitation of a dam and construction of seven wind-powered boreholes were engaged. Feasibility studies for bulk water supply countrywide and the development of guidelines for Water for Production were not undertaken.

**Table 4-18: Water for Production: progress against plans for FY 2005/06**

| | Plan | Achieved |
|---|---|---|
| Wind-powered systems installed | 2 | 2 |
| Valley tanks constructed | 9 | 10 |
| Valley tanks commissioned | 43 | 26 |
| Dams reconstructed | 1 | 1 |
| User committees trained | 43 | 44 |
| Staff trained | 8 | 5 |

*Source: MFPED Annual Budget Performance Report FY 2005/2006.*

### 4.8 Environment and Natural Resource Management

Presently, sub-sectors (wetlands, lands, meteorology) within the Environment & Natural Resource Sector (ENRS) have stand-alone sub-sector strategic plans. Development of a consolidated Environment Sector Strategic Plan is one of the key targets for the early phases (2008) of the overall Sector Investment Plan being prepared. In Financial Year (FY) 2005/06, the National Forest Authority enhanced Collaborative Forestry Management (CFM), Community Forestry Initiatives, and National Tree Planting. There was increasing involvement of the private sector. Activities to reduce illegal harvesting of timber and other forest products were enhanced. At the beginning of FY2006/07, Government granted National Environment Management Authority (NEMA) a separate Vote to ensure sustained funding.

No information was available on the percentage of forest land covered by sustainable forest management plans. During 2005/06, wetlands management guidelines were disseminated to only 20 districts, (less than 30% of national coverage), and reports in only four districts were updated. Training communities in sustainable resource harvesting, and updating of wetlands management reports covered nine and four districts respectively, roughly 10% of national coverage. Despite the urgent need for action on the environment, little was done because of delays in developing policy. "Most of the policies and legislations that were planned to be completed during 2005/06 were not accomplished. These include the Environment and Natural Resources (ENR) Investment Plan, bills on Registration of Titles, Land Survey, Land Acquisition and Town as well as Country Planning, Land Use Policy, Land Policy, and Plan of Action on land rights awareness" (DCI 2006: p.41).

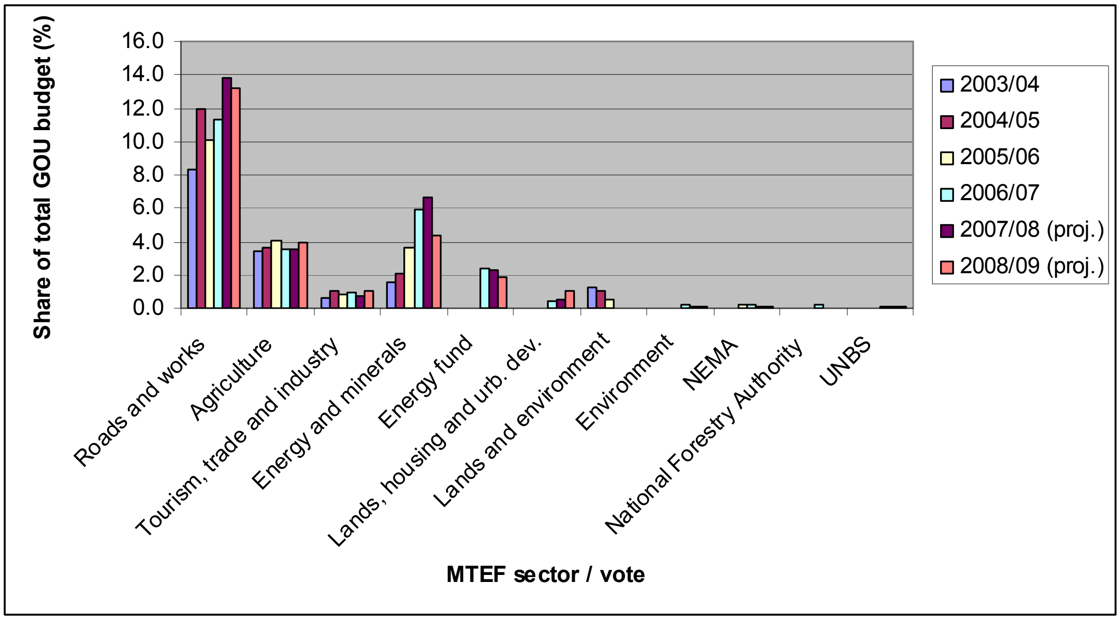
### 4.9 Budget Allocations

Budget allocations to the PEAP Pillar 2 cannot be derived directly from MTEF budget figures, which are not aligned with the PEAP objectives and sectors/areas. Nevertheless, an approximation is provided below (Figure 4-1) showing shares of the budget going to the main Pillar 2 objectives, in the past and planned until 2008/09.

The pillar, as shown below, has accounted for less than 20% of the total GOU budget in 2003/04-2005/06 after having received around 22% at the beginning of the decade. According to the approved budget for 2006/07 and budget projections for 2007/08-2008/09 the share will increase sharply, mostly on account of increased allocations to the energy sub-sector along with increased budgets to the roads and works sector. It is notable that budget allocations, in relative terms, to agriculture as well as to tourism, trade and industry dropped after 2002/03 and that their budget shares for 2006/07-2008/09 are not expected to reach the levels prevailing at the beginning of the decade.

The Poverty Action Fund (PAF) is a subset of the GOU budget. PAF budget allocations are protected from the within-year cuts. The PAF expenditures accounted for about 38% of the GOU discretionary budget during the period 2004/05-2005/06 and is expected to increase to nearly 40% in 2006/07. PAF allocations to Pillar 2 “Measures to Improve Productivity, Competitiveness and Incomes” accounted for a relatively constant share of about 12% of total PAF budgets during the same period.

**Figure 4-1: MTEF Budget Allocations incl. Donor Projects for Sectors / Votes Covered by Pillar 2 (Sectoral shares of total budget - %)**




Sources: MFPED: database, *National Framework Paper for Financial Years 2006/07-2008/09* and *Budget Call Circular* of 5.12.2006.

# 5 Pillar 3 - Security, Conflict-Resolution and Disaster Management

## 5.1 Overall Trends

Pillar 3 of the PEAP prioritises the following key areas: ending rebel insurgency by peaceful means; ending cattle rustling; dealing with internal displacement and abduction; and, developing capacity to anticipate crises including conflicts. Security from violence of any kind is fundamental to the livelihoods of people, and to sustainable economic, social, and political development.

Defence and security had a clearly articulated strategic objective: the protection of persons and their property through elimination of conflicts and cattle rustling, resettlement of IDPs and strengthened disaster management. Although these policy objectives are quantifiable and measurable, no clear annual performance targets or indicators were developed. In 2005/06, the performance of the Internal and the External Security Organisations (ISO and ESO) and the security aspects of the Presidency were measured against broad policy objectives that did not have any linkage with the outcome indicators under the third Pillar of the PEAP. The Key Result Area (KRA) relevant to Defence and Security is 'reduced insurgency and conflict'. The two outcome indicators are: (a) number of civilian causalities of conflicts and (b) percentage of returnees/reportees that are resettled. It is also worth noting that government policy in the Defence and Security sector entailed achievement of performance under a far wider coverage of outcomes than was reflected in the PEAP Policy and Results Matrix. The stakeholders at the APIR event recommended that the PEAP Pillar should reflect the roles of all MDAs in a coherent manner and not just the Ministry of Defence.

It is therefore evident that the outcome indicators do not appear to meet the purpose for several reasons. The resettlement of returnees/reportees is undermined by a combination of factors such as fear of Karimojong raiders, absence of clear benchmarks or performance targets, and safety of citizens. While Defence had clearly stipulated sector goals, other ministries, departments and agencies contributing to the Pillar had only departmental objectives. These are undoubtedly relevant to the mandates of these agencies or units but did not have long-term sector performance goals and were not linked to outcomes under the 'reduced insurgency and conflict' strategic result. The Pillar also does not mention any measures for the protection of women and children. It includes 'disaster management' but this is reflected only in the context of the conflict in the North instead of disaster management for the whole country.

According to the UNHS 2006, nearly two thirds of households in Uganda experienced at least one type of shock in the form of drought, floods, pest attacks, robbery, civil strife, and death of family members. Around 1.4 million people have been displaced as a result of the conflict situation, and forced to live in protected camps. Uganda is also home to 252,995 refugees. Both displacement and refugees put a heavy burden on service delivery systems, amongst others, and traps the affected population in poverty. Macroeconomic outcomes have been adversely affected by the conflict in the North. If the peace process is successful, regional production should recover leading to increased GDP growth, reduced rate of inflation and poverty levels.

## 5.2 Regional Disparities

Lack of security affects the poor and vulnerable groups like women and children. It is a vital concern that inhibits the achievement of the MDGs in the Northern Region of Uganda. Government administration in the region is impaired and many services are provided by NGOs. Insecurity has lowered road usability, school enrolments, performance of schools, and delivery of agricultural extension services (Figure 5-1).

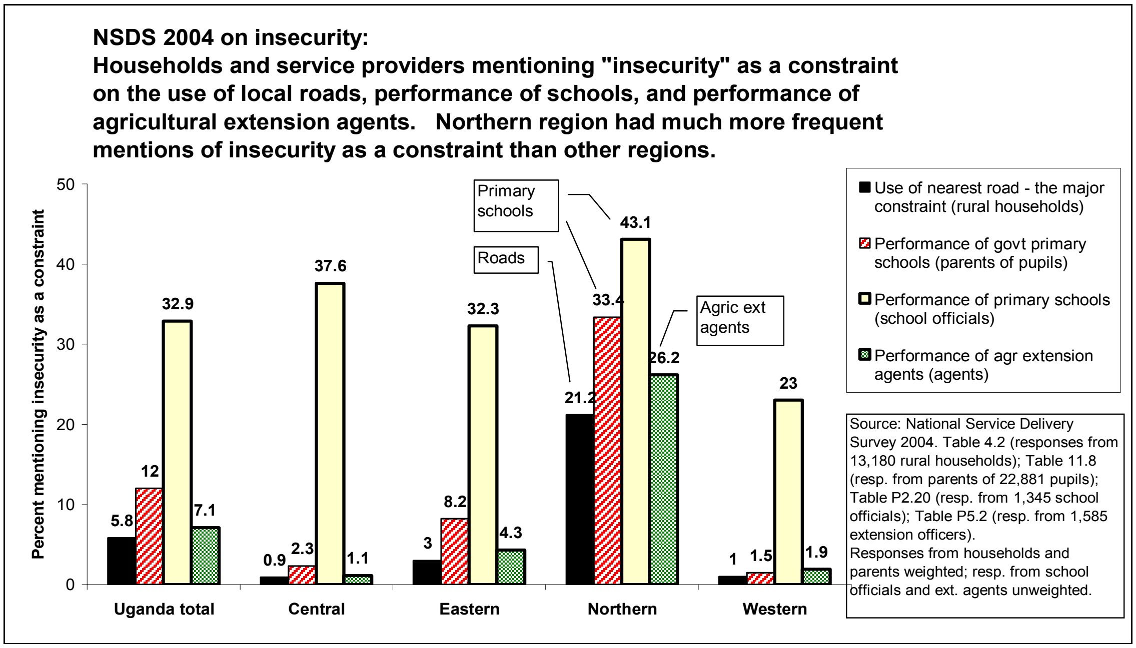
Despite some improvements, an estimated 1.4 million people continue to be displaced during 2006. Recent data show that poverty is at 61% in the Northern region, which is considerably higher than in other regions, and all human development indicators are way below the national average. The 2006 UDHS preliminary results showed that the proportion of children underweight in the North was 28% (49% in Karamoja) and the proportion of children who were treated for diarrhoea was as high as 89%.

The incidence of HIV/AIDS in the region continues to be higher than the national average, and ranges from 8.2% to 2.3% across the Northern region, whereas the national average was reported to be 2.5% in 2005. Other studies indicate that women have borne the brunt of the conflict; an estimated 25,000 children have been abducted, including 7,500 girls, who have conceived more than 1,000 babies in captivity. (In the Peace, Recovery and Development Plan it is indicated that

60,000 children have been abducted.) The conflict has been marked by brutal sexual violence against women, wide scale and long-term displacement, and severe psychological trauma that has devastated entire communities. About 20,000 children have to walk long distances every evening in search of safety from abduction.

The Government of Uganda promulgated an Act in 2000 that offered amnesty to individuals engaged in war or armed rebellion against the Government. The Commission that was designated to implement the Act is still in the process of developing concrete programs.

**Figure 5-1: Insecurity as a Constraint to Development in Uganda, by Region**




The PEAP states four Strategic Key Results to be achieved including: (1) reduced insurgency/conflict; (2) reduced proliferation of illegal arms; (3) reduced number of internally displaced people; and (4) enhanced refugee self-reliance. The PEAP results matrix provides additional details of the current picture, despite difficulties in having access to data given the sensitivity of the issue. Progress has been achieved in some areas, and the Government continues to work on many of these issues in the region. Additionally, it must also be recognised that the Northern region has a number of different types of conflicts with diverse narratives, and there are a variety of socio-economic conditions ranging from acute humanitarian emergencies to more stable conditions in certain parts of the North, which require different kinds of instruments.

In a bid to operationalise the Pillar, three SWGs were supposed to be formed. These are: (i) a security working group; (ii) a conflict resolution working group and (iii) a disaster management working group. The groups have not been constituted. The ministerial policy statement of the Presidency for FY 2006/07 defines defence and security as one SWG, with the Internal Security Organisation (ISO) and the External Security Organisation (ESO) as sub-sectors. Following the conclusion of the Defence Review Process in 2006, Defence constituted itself into a standalone SWG, with the Ministry of Defence as the sole player. The other sub-sectors under Pillar 3 have neither constituted themselves into SWGs nor undertaken initiatives to commence sector reviews. While Defence designated a focal-point person to spearhead the sector review processes, ESO and ISO did not, and a committee to monitor Pillar 3 was not put in place. The formation of a single secretariat for all sub-sectors under Pillar 3 has not materialised, but other initiatives have been prioritised. Following the APIR consultation in February 2007, members of ministries and donor groups decided to form a Sector Working Group and address issues on the pillar.

### 5.3 Northern Rehabilitation and Reconstruction

Several measures have been taken by the Government to work towards rehabilitation and reconstruction of conflict and post conflict areas. To improve coordination of rehabilitation and reconstruction of Northern Uganda, the Government has launched the National Peace, Recovery and Development Plan (PRDP) for Northern Uganda in order to improve service delivery and spurn development in the area. Strategic interventions will be undertaken through 14 priority programs over the medium term, and spread over four key areas namely:

- Consolidation of state authority involving the cessation of armed hostilities, re-establishing the rule of law, protection of human rights and strengthening local governance and expanding the road density in the area as insurance against any future wrong elements;
- Rebuilding and empowering communities through improvement in conditions and quality of life in the IDP camps while facilitating the return and re-integration of the displaced populations;
- Revitalisation of the economy by paying special attention to re-activating and strengthening production, marketing, processing and services; and
- Peace building and reconciliation between the victims and perpetrators of the crimes.

The PRDP 2006-2009 was being finalised at the time of this APIR, and much of the information could not be used for the purposes of this review. However, the PRDP is devoted to the issues of the North and is more overarching than Pillar 3 in the PEAP. The question of the revision of Pillar 3 should be thought through in the context of the PRDP policy framework.

A Joint Monitoring Committee (JMC) was also established to address security and humanitarian issues. The Northern Uganda Social Action Fund continues to provide assistance in the area and community based interventions have been introduced in 119 projects. The Northern Uganda Youth Development Centre has also been established, and the Northern Uganda Rehabilitation Program has been completed.

### 5.4 Insurgency and Conflict

Some progress was made in the pursuit of key results in the Pillar; the country remained generally calm, apart from isolated cases by rebel remnants. The LRA conflict that had spread to North-Eastern Uganda (Teso sub-region) in 2005 was contained by the end of the financial year (2005/2006). In March-June 2006, isolated skirmishes were reported in Western Uganda's districts of Bundibugyo, Hoima, Kibaale, Kanungu and Rukungiri between ADF rebel-remnants and Ugandan Peoples Defence Forces (UPDF).

A protocol was signed with the Government of South Sudan (GOSS) and peace talks initiated in July 2006 between Uganda and the LRA in Juba under the mediation of the president of Southern Sudan. The talks stalled in February 2007, and the LRA did not agreed to the renewal of the Cessation of the Hostilities signed in August 2006. This may mean that the implications for security in the region will continue to be uncertain. The talks are, by many stakeholders, assessed to provide the best opportunity in 20 years for peace in Northern Uganda. The agenda of the Juba talks, as agreed by the GOU and LRA delegations, is: (i) cessation of hostilities; (ii) comprehensive solutions; (iii) reconciliation and accountability; (iv) formal cease fire; (v) disarmament, demobilisation and reintegration.

The capacity of the UPDF for rapid reaction to security challenges through air support and improved ground capability has been greatly enhanced. According to official documents, the UPDF established a robust financial management, budgeting, audit and inspection system, thereby increasing efficiency in resource use. Increasing the professionalisation of the UPDF through Senior Command and Staff Training continued.

Notwithstanding the above achievements, some concerns have been raised. First, a substantial proportion of defence/security expenditure is classified. The Auditor General has consistently raised concerns over lack of accountability even for non-classified expenditures of security-related agencies.

### 5.5 Proliferation of Illegal Arms

The second strategic PEAP result area is the reduction of illegal arms proliferation in Northern Uganda, particularly in Karamoja, which suffers from endemic insecurity. The Government adopted a regional approach to sustainable disarmament. A Disarmament Action Plan was agreed between Kenya and Uganda and was launched in 2005. A disarmament program in Karamoja, which was re-launched by the President in September 2004, continued throughout the FY 2005/06, leading to reduction in incidents of cattle rustling. Karamoja has a traditional cattle economy associated with rustling and inter-clan fighting among its inhabitants. Of the estimated 10,000 guns (other sources estimate the number at 40,000 while PRDP gives an estimate of 15,000 guns) in the area in 2002/03, government had recovered 1,099 guns by 2005/6. Cases of raids, road ambushes and general insecurity continued with raids sometimes spilling over to districts neighbouring Karamoja. There are reports of a rise in the incidents of insecurity in the area, and of clashes between the UPDF and LRA, which have led to a significant number of civilian deaths, and loss of livestock and property.

The National Focal Point (NFP) on small arms is finalising preparations to carry out another massive destruction exercise. In May 2006, the biggest destruction exercise in Africa was undertaken. Over 60,000 firearms were destroyed in an exercise that brought together the Police and UPDF, the exercise was coordinated by NFP and supported by UNDP and Safer Africa. In the month of November 2006, the NFP undertook the destruction of over 300 tones of ammunition that have been lying redundant in several military and police facilities around the country. The violence in Karamoja has led to the Government revising the Karamoja Integrated Disarmament and Development Plan (KIDPP).

### 5.6 Internally Displaced Persons

The third strategic Pillar result area is the reduction in the number of Internally Displaced Persons (IDPs). The conflict has produced more than 1.4 million IDPs. With the return of relative peace in much of Northern and North-Eastern Uganda, government started decongesting IDP camps. Satellite camps were created in Kitgum, Pader and Amuria. Of the 1,063,500 IDPs in Lango and Teso alone, 581,900 IDPs (or 55%) were supported to return to their homes. As a resettlement intervention, over 2.7 million people were provided with food production implements.

In 2005/06, the Government, in collaboration with humanitarian agencies such as World Food Programme (WFP), mobilised food and non-food items for the IDPs. However, in the districts neighbouring Karamoja, the return of people from IDP camps was hampered by the continued threats from armed Karimojong warriors.

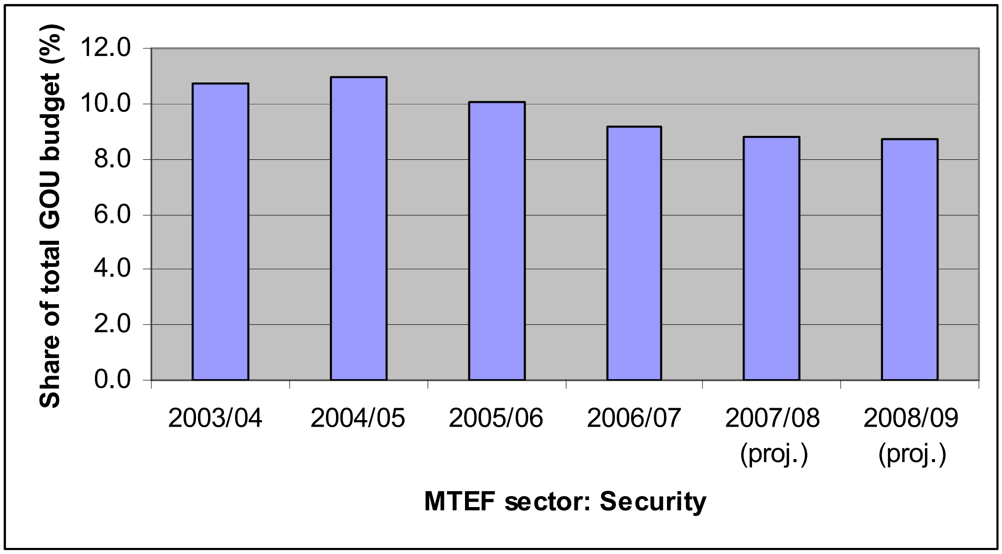
### 5.7 Refugee Self Reliance

Uganda is home to 252,995 refugees. The Refugees Act was passed in 2006, and the refugee policy remains largely liberal and progressive. Poverty levels are high among the refugees. Uganda is a signatory to most International and Regional instruments especially those related to the protection of refugees. The Government of Uganda with the help of UNHCR and a number of development partners especially the Government of Denmark launched the comprehensive Development Assistance for Refugees and Refugee Hosting Areas (DAR programme). The programme is incorporated as part of Pillar 3 and refugees are included in the district and local level government programmes and plans. They have access to arable land services and opportunities in the areas where they are settled without discrimination. This initiative is considered successful. The programme is operational in three districts, and integration in additional districts is currently underway.

### 5.8 Budget Allocations

The budget for Security, Conflict and Disaster Management is depicted in Figure 5-2 according to MTEF sectors, which are not fully aligned with the breakdown according to PEAP objectives. The sector’s share of total spending has been on the decline.

**Figure 5-2: Medium Term Expenditure Framework, incl. Donor Project for Sector/Votes Covered by Pillar 3 (Ushs billion, current prices)**




Sources: MFPED: data base, *National Framework Paper for Financial Years 2006/07-2008/09*, and *Budget Call Circular* of 5.12.2006.

Effort has recently been made by MFPED to divide the budget according to PEAP objectives for 2004/05 - 2006/07 (Table 5-1). The donor project contributions given in the table are based on the figures recorded by GOU and presented with the MTEF budget figures.

Donor contributions to the Pillar are significantly higher than shown in the table because some of the donor contributions made to the sector are not provided through Government institutions and therefore considered off-budget. The total Pillar 3 budget for 2006/07, for example, is almost 70% higher than shown in Table 5-1 if this extra development partner support is taken into account. The recent PRDP 2006-2009 estimates that the Government will need US$ 539 million to implement the priorities defined in the plan. This represents approximately US$ 65 per person over a period of three years.

**Table 5-1: GOU Budgets by PEAP Objectives Pillar 3: Security, Conflict and Disaster Management 2004/05 - 2006/07 (Ushs billion, current prices)**

| Pillar 3 | 2004/05 Outturn | | | 2005/06 Outturn | | | 2006/07 Budget | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total GOU ex. DP | DP Development | Grand total | Total GOU ex. DP | DP Development | Grand total | Total GOU ex. DP | DP Development | Grand total |
| 3.1 Elimination of conflicts & cattle rustling, resettlement of IDPs, & strengthened disaster management | | | | | | | | | |
| 3.1a Defence & Security | 375.8 | 0.0 | 375.8 | 364.2 | 0.0 | 364.2 | 381.9 | 0.5 | 382.4 |
| 3.1b Conflict Resolution | 0.5 | 3.6 | 4.1 | 0.4 | 0.0 | 0.4 | 0.8 | 0.0 | 0.8 |
| 3.1c Humanitarian Assistance, including IDPs | 0.9 | 3.4 | 4.4 | 1.5 | 0.0 | 1.5 | 3.7 | 8.0 | 11.7 |
| 3.1d Northern Uganda Reconstruction | 3.5 | 39.7 | 43.2 | 3.3 | 39.0 | 42.4 | 20.3 | 59.1 | 79.3 |
| Support to different areas relevant to objective | 0.5 | 0.0 | 0.5 | 0.8 | 0.0 | 0.8 | 1.0 | 0.0 | 1.0 |
| Total Pillar | 381.2 | 46.8 | 428.0 | 370.2 | 39.0 | 409.2 | 407.7 | 67.6 | 475.3 |

*Source: MFPED/ODI (2006): Uganda DP Division of Labour Exercise Interim Report. Budget tables. First Draft.*

# 6 Pillar 4 - Good Governance

## 6.1 Overall Trends

The PEAP prioritises the following key areas: human rights and democratisation; the development of a better legal system; and transparency, accountability and the elimination of corruption. The foundation for entrenching good governance in Uganda has been laid. The establishment of a legal and regulatory framework coupled with standards have, among others, contributed to relative stability which is conducive for investment and growth. Uganda's voter turnout for Presidential and Parliamentary elections has been stable at about 70% participation over the past three election years (1996, 2001, and 2006) and at about 50% for referenda. Local government elections, however, recorded a very low turnout estimated at only 30% of the registered voters. Voter satisfaction with the extent of democracy based on both presidential candidate preference and regional perceptions on performance of the incumbent government stand at about 50%. Voting trends show that the North and East as well as Kampala are dominated by the opposition. General indications are that despite the various challenges and negative features particularly lack of a level playing field, the results of the elections reflected the will of the people. The adoption of a multi-party political system was a welcome further step towards democratisation.

The role of civil society and media in advocacy and provision of alternative forms of political participation has been executed in three major respects – awareness creation as a form of civic education, voter education, and election monitoring. A sticking point in the CSO - State relations relates to restrictive provisions under the NGO Act 2006 which are widely regarded by the NGOs as excessive state control that could curtail their ability to operate effectively. The media have operated relatively freely although the ranking of Uganda on the international Press Freedom Index at the 116th position in 2006 down from the 80th position in 2005 is worrying.

There has been an overall reduction in number of reported human rights violations between 2003 and 2005. Of particular significance is the gradual reduction in the number of reported torture cases - 256 were reported in 2005 compared to 488 in 2004 and 446 in 2003. Reforms in the justice system are challenged by a rising crime rate, long period of stay on remand currently at 2 years and 2 months, and a huge case backlog. Generally, there is limited public confidence in the Justice, Law and Order Sector (JLOS) institutions including the police, courts, land and company registries. Performance in public sector reforms, public financial management and accountability has been below expectation. Modest gains have been registered in the control of corruption as evidenced by the recently released reports of the Transparency International Corruption Perception Index and the World Bank Governance Institute.

Change processes such as the Integrated Financial Management System (IFMS), results oriented management, and Output Oriented Budgeting have sought to increase effectiveness, and efficiency of the public sector, while ensuring fiduciary risk management. The excessive cost of public administration continues to constitute a major challenge to realisation of improvements in local government service delivery. The MTEF and donor projects within pillar 4 display considerable increases in expenditures over a period of eight years. In constant prices expenditure has increased by 90% since 1999/2000. The overall growth has been 60%, and Pillar 4 expenditures increased from 17% of budgetary expenditure in 1999/2000 to 24% in 2006/07.

## 6.2 Principles of Good Governance

Good governance covers a broad range of policies, politics and administration. Governance in the broad sense is about "how the rules of the political game are managed", which include how rules are formulated, agreed and managed, and how the institutional framework for relations between the governed and those who govern is set up (Göran Hyden *et al*, 2004). *Good* governance adds qualitative dimensions of accountability, transparency, efficiency, effectiveness, and participation as they affect public sector service delivery, private sector operations, personal security, and resource management schemes of Government.

The present structure of Pillar 4 highlights mostly political dimensions and does not effectively articulate some critical areas such as efficiency and effectiveness of democratic governance at the various tiers of administration and the roles and functions of the various stakeholders in a multi-party democratic setting. Participation and empowerment, elements necessary for the progressive realisation of the good governance goals, are not included. The limited definition of Governance and the lack of an overall governance assessment framework hamper efforts to measure progress.

Isolated approaches to the measurement, multiplicity of policy and monitoring frameworks/ matrixes pose challenges to critical analysis of governance performance. Key results areas defined in the PEAP results and policy matrix include: strengthened system of representation; improved human rights; reduced crime; increased efficiency in the justice system; increased quality of justice; increased efficiency in commercial justice; strengthened public financial management; reduced corruption; improved public sector performance and strengthened local government system for service delivery.

### 6.3 Democratisation

In 1986, following two decades of economic chaos and political turmoil, Uganda commenced a significant turn towards democratisation and improving governance. Proxy indicators of progress in the democratisation process include: public satisfaction with the extent of democracy; voters' turnout in elections; regular universal suffrage free and fair elections; clear separation of power and independence of the three branches of government; respect for freedom of expression and the media; and ability of civil society to advocate and provide alternative forms of political participation.

The constitution-making process commenced in 1988 and resulted in the promulgation of the new Constitution of the Republic of Uganda in 1995. The Constitution clearly embodies human rights freedoms, principles of rule of law, good governance and due process as enshrined in the major human rights treaties. It set in motion a number of changes and interventions toward ensuring good governance particularly the establishment of constitutional bodies such as: the Uganda Human Rights Commission (UHRC); the Inspectorate of Government (IGG); the Electoral Commission, and; Auditor General's Office. The Parliament has gone through a phase of restructuring to strengthen autonomy including the creation of the Parliamentary Commission. The Public Accounts Committee (PAC) has generated meaningful debates over reports of the Auditor General and restored some confidence in its ability to enhance accountability.

Over the past 10 years, a decentralised system of government has ensured citizen participation in the choice of leaders at local level and in the identification of development priorities to which resources should go. As regards electoral politics, there are still reports of electoral violence and logistical bottlenecks affecting operations of the electoral commission. The representation of special interest and marginalised categories (women, youth, workers, persons with disabilities) in parliament has further advanced democratisation. The adoption of a multi-party political system is a further step towards democratisation, although the dominance of Parliament by the National Resistance Movement Organisation may not ensure effective checks on policies originated by government. Being in the early stages, the process calls for intensive investment in political party development, civic education and meaningful dialogue between the executive/ ruling party and the opposition and to generate public confidence in the system.

Uganda's voter turnout for Presidential and Parliamentary elections has been stable at about 70% participation over the past three election years (1996, 2001, and 2006) and at about 50% for referenda. The local government elections for District Chairpersons, directly elected councillors and women councillors in March 2006, recorded a very low turnout of voters estimated at only 30% of the registered voters. On the quality of participation in the elections, public opinion (Table 6-1) indicated equal levels of satisfaction and dissatisfaction among voters based on both presidential candidate preference and regional perceptions of performance of the incumbent government.

**Table 6-1: Voter opinion on 2006 Presidential Elections**

| Voter opinion | No. | % |
|---|---|---|
| Fully Free and Fair | 495 | 33% |
| Free and Fair with Minor Problems | 300 | 20% |
| Free and Fair with Major Problems | 195 | 13% |
| Not Free and Fair at all | 495 | 33% |
| Total No. of Respondents | 1500 | 100% |

*Source: Monitor Publications- Opinion Poll held September and October 2006.*

The assessment of the three presidential/parliamentary elections (1996, 2001 and 2006), applying the Paris 1994 Inter-Parliamentary Council Declaration on Criteria for Free and Fair Elections which articulates some parameters that are largely utilised by election observers indicated that they were free and fair. The most notable drawback in the 1996 election was the restriction to a no-party political system and the logistical challenges of the electoral commission. Assessments of the 2001 and 2006 indicated that despite the various challenges and negative features, particularly the lack of a level playing field, the results of the elections reflected the will of the people. Both reports of international observer teams and those of NGOs indicated election-related malpractices including a biased legal framework, voter-buying, implication of the army and security agencies in intimidation and violence, controversy over voters' registers and unequal access to the media and other state resources. During the 2006 election a number of development partners expressed their low confidence and dissatisfaction with the electoral process and legislative reforms prior to the elections through a series of aid cuts. The lack of systematic and continuous Civic and Voter Education undermine voter awareness and confidence in participating in the elections.

Civil society ability to advocate and provide alternative forms of political participation has focused on awareness creation as a form of civic education, voter education, election monitoring and coordination among national NGOs for collective impact and position. The role of the Civil Society (currently numbering 6,000 CSOs in Uganda) in enhancing citizen participation in socio economic processes and monitoring government programmes, while notable, is riddled with internal governance weaknesses, credibility and poor perceptions, capacity limitations, donor dependence, poor information flow, lack of a unified national framework and policy and lack of programme continuity and follow-up (DENIVA and CIVICUS, 2006). The civil society is also largely fragmented with a weak base particularly in the rural areas. The CSO - State relations are currently strained by the requirement under the NGO Act 2006 for all NGOs to be issued with periodic (annual) permits and to be monitored by the NGO Board on which they are not represented and which also includes representation from security organisations. This is widely regarded by the NGOs (NGO Forum, 2006) as excessive state control that would curtail their ability to among others advocate and provide alternative forms of political participation.

The private sector under the umbrella of the Private Sector Foundation highlights some of its concerns: as security; energy loses; slow and cumbersome law reform process; high costs of doing business; rising levels of corruption in the public sector, and a poor investment climate. Through the Presidential Investor Round Table (PIRT), the private sector is increasingly gaining a strong lobbying voice and ground, to partner with the State, and to push forward reforms aimed at enhancing competitiveness and ultimately good governance. However, the Private Sector must address internal and corporate governance challenges, which have contributed to poor governance in the public sector.

Uganda enjoys a vibrant and pluralistic media universe. Media and press freedom are crucial ingredients for good governance. Over the years Uganda has witnessed a surge in independent electronic media. The media in Uganda has played a key role in highlighting progress, and key challenges in the governance process. The media has operated relatively freely and has made a significant contribution through voter and civic education, the release of supplements and conduct of opinion polls. It has however been affected by persistent claims of oppression through existing laws (e.g. the laws on sedition), and attacks to personal freedoms and security of press members. The period 2005-2006 witnessed a number of cases brought by the State against media houses and journalists, the arrest of journalists and the closure of one independent newspaper in the run up to the elections. The international Press Freedom Index 2006 presented by *Reporters without Borders* ranked Uganda at the 116$^{th}$ position down from 80$^{th}$ in 2005. Reports of election observers for both the 2001 and 2006 elections indicate a general bias in media coverage in favour of the incumbent during presidential election campaigns.

### 6.4 Legal and Justice System

Key result areas include reduced crime, increased efficiency in the justice system, and increased quality of justice. Four indicators were identified for the medium term and these include:

- Reduced crime (from 30 to 20 incidents per 10,000 people)
- Increased efficiency in the justice system (reduction in the remand population)
- Increased quality of justice (public confidence in the JLOS, access to legal aid)

- Increased efficiency in the Commercial Court (satisfaction with business in the court and reduction in case backlog).

The legal and judicial reforms that were initiated during 1995-2000 culminated in a programme of reform under the Justice, Law and Order Sector (JLOS). The sector provides a mechanism to enhance coordination among the stakeholders involved in justice, law and order. The Local Council court system formally established in 1988 is utilised by almost 90 percent of the population and has enhanced access to justice in terms of speed, cost, technicality and distance. User perception surveys[3] indicate a need for inputs to enhance the quality of justice dispensed. The Constitution of Uganda contains many provisions that protect judicial and parliamentary independence, most prominently, the establishment of the Judicial and Parliamentary Service Commissions. According to a USAID economic analysis paper the bench in Uganda has generally been perceived as quite competent, particularly at the level of the High Court and above. Political interference has not been entirely erased, but has been significantly diminished (USAID, 2005).

The slow law reform process largely because of delays in Parliament continues to impact on various sectors within the pillar including the JLOS, e.g. the law on defilement is responsible for at least 40% of cases awaiting trial - leading to overcrowding in prisons. The delay in developing and passing the Whistle Blowers Protection Law hampers reporting of corrupt acts. The increasing number of child maintenance cases handled in the UHRC tribunals points to systemic bottlenecks in the Justice Sector that should otherwise be handling these cases through the Family and Children's Court. While election petitions have enabled aggrieved parties to seek redress in courts of law, they have had an adverse impact on other aspects of the criminal justice system by slowing down the ordinary judicial process. Over the last 10 months, at least 18 judges have been engaged in the handling of these cases and there have hardly been any criminal sessions taking place. Of all the election cases filed, at least 90% have been heard within the stipulated time limits of 6 months and 15 cases are still pending. There are no time limits within which to hear a case of capital offence. This has contributed to the delayed processes in the JLOS and increased the average time spent on remand as well as case backlog.

Uganda has an increasing crime rate and a high re-offence rate (43%) for convicted offenders. The rate of reported crimes countrywide averages at 16,000 crimes (1,000 of which are of a capital nature e.g. murder, defilement) per month often resulting in the loss of property (approximately Shs. 40 billion is estimated to have been lost in crime between June and November 2006) and life. Defilement constitutes the third most prevalent crime following common assaults and thefts of all kinds. Studies have shown that the big number of defilement cases clogging the system is representative of underlying socio-economic factors and requires amendment of the law in terms of defining the offence and its jurisdiction. The decriminalisation of petty offences is an ongoing reform that would significantly impact on crime figures.

Length of stay on remand and case backlog are significant indicators for the effectiveness and efficiency of a judicial system. When the Mid Term Evaluation of the Justice, Law and Order Sector (JLOS) First Strategic Investment Plan (SIP I) was conducted in 2004, the average time spent on remand was at 2 years. The 2005 Prisons Census highlighted a marked increase to over 2 years and 8 months - a mini-prison census conducted by JLOS in 2006 revealed that the average stay on remand remains high at 2 years and 2 months. During 2006, the number of criminal sessions was lower due to limited resources and the diversion of judges to hear election petitions. Regional divergences were noted with periods of up to 5 years spent on remand in prisons where court sessions have not been held for 3 years. Gulu is the most notable district, and an inspection conducted by Stakeholders on Prisons in Western Uganda in November 2006 found that sessions had not been held for over 2-3 years in Fort Portal and Bushenyi. This situation has partly contributed to a high escape rate e.g. over 400 escapees in Arua Prison last year, a potential risk for the security situation in the country. Given the high levels of reported crime particularly defilement and the low rate of case disposals in all matters (land, family, commercial and criminal), the growing rate of case backlog at all court levels is worrying.

On the ***quality of justice***, the criminal and commercial justice baseline surveys (2002), highlighted poor public confidence in the JLOS institutions including the police, courts, land and company registries. This is largely due to perceived poor service delivery, delayed processes, and high costs

[3] Danida Support to Judiciary Programme: Baseline Survey on Operations of Local Council Courts (1998); UNDP/Legal Aid Basket Fund: Joint Survey on Operations of Local Council Courts and Legal Aid Services (2006).

in fees and high levels of corruption. A recently concluded Joint Survey on Local Council Courts and Legal Aid Service Providers also highlights key challenges including limited outreach of legal aid services, low capacity of officials and inadequate monitoring which have contributed to poor quality of justice especially for the poor and marginalised groups. In this regard, strategies like Alternative Dispute Resolution, strengthening capacity of LC courts, Community Policing and Community Service are being introduced to improve access to justice for the poor and marginalised as highlighted by the JLOS SIP II.

The commercial justice system incorporates all institutions charged with the delivery of commercial justice including (but not limited to) the Uganda Registration Services Bureau, Land Registry, the Judiciary, the Tax Appeals Tribunal, the Private Practice (Advocates) and the prevailing laws. Indicators for increased efficiency in commercial justice include, "commercial court case backlog growth (per month) reduced (from 30 to 0%)" and a rise in "percent satisfaction of business with the commercial court" (from 35 to 90%). The Commercial Justice follow up Survey 2004, put the growth of backlog in the Commercial Court at a rate of 26 cases per month, much higher than the targeted 10 cases per month. The Commercial Justice Baseline (2002) and Follow up Surveys (2004) highlighted poor public perceptions of various institutions with the Company and Land Registries faring very poorly due to corruption, and slow pace of processes (that are also often complex). Legal Advocates were considered irrelevant due to high fees and low levels of professionalism; while the outdated commercial laws, low capacity to fight corruption, slow legislative reform process, poor enforcement of commercial judgements, limited outreach of commercial justice institutions and the large number of processes in registering a business continue to hamper business operations.

### 6.5 Human Rights

The strategic objective and key result area has only one proxy indicator: *Number of human rights' abuses reported by UHRC*. The Uganda Human Rights Commission (UHRC) was enacted in 1997, with the monitoring of human rights violations being part of its core functions. The Commission has established three regional offices and continues to receive and handle complaints including those against the government. Awards against government, particularly complaints of torture, have been significant although largely not enforced. The Commission undertakes various activities in the exercise of its functions and releases annual reports of its operations as the assessment of the pillar shows. Since its inception the UHRC has released 8 annual reports each with a specific thematic focus. The 2005 UHRC Report indicates an overall reduction in number of reported human rights violations between 2003 and 2005. Of particular significance is the gradual reduction in the number of reported torture cases - 256 were reported in 2005 compared to 488 in 2004 and 446 in 2003.

Some of the key perpetrators of human rights violations are institutions within the Pillar. For instance, while the Violent Crime Control Unit (VCCU) has been quite effective in the fight against violent crime, it is at the same time charged with human rights violations as are the prisons and police with poor conditions of detention. The UHRC report indicates the continued existence of un-gazetted places of detention (safe houses), very poor conditions of detention in local government prisons, and a high incidence of child neglect and maintenance cases. No reason is given for the reduction in reported cases of torture and it cannot be deduced whether this indicates an actual reduction in incidence of torture or a loss of public confidence due to poor enforcement of decisions. For example, over Shs 700 million has been awarded by the UHRC to victims of torture but the enforcement of these awards by the Government has been very poor. The present indicator has serious limitations, as it does not take into account violations reported to and handled through both the formal judicial and informal justice systems.

### 6.6 Public Sector Management

Reform of the public service has been central to government's development agenda since the early 1990s. Two successive Public Service Reform Programmes (PSRP), 1991-2005 and 1997-2002, have been implemented, and a third (2005/06-2009/10) was launched in October 2006. *"Satisfaction with public service delivery"* is stated as the indicator for public sector reform. Following two phases of public service reforms, with a third one subsisting, it is difficult to point to concrete evidence of substantial improvement in the performance of the public service. Several factors account for this, the primary one being lack of a systematic mechanism for generating information to assess the indicator. On the other hand, there are too many fragmented efforts, which give the impression a coherent development strategy is lacking. For example, public service reform and decentralisation are being pursued as two distinct initiatives; the various sector Management Information Systems hardly 'talk' to each other and are not well synchronised with the NIMES; and Results Oriented Management (ROM) was implemented quite independently of Output Oriented Budgeting (OOB).

The establishment of an independent Revenue Authority has improved revenue collection over the years. According to the World Bank Institute, 2000 and 2004, out of six indicators, Uganda improved its standing in voice and accountability, and control of corruption. The Government of Uganda has continued to register significant improvements in public financial management. Results include improved legislation, more coherent fiscal strategy, introduction of an enhanced integrated financial management system (IFMS), commitment control, accountability mechanisms, and extensive upgrading of budget, accounting and auditing skills. Change processes such as the Integrated Financial Management System (IFMS), results oriented management, and Output Oriented Budgeting have sought to increase effectiveness, and efficiency of the public sector, while ensuring fiduciary risk management.

Indicators under the strategic objective on "public finance management strengthened" include; p*er cent of clean audit reports and preparation of financial statements according to regulations by ministries and Local Governments (LGs).* There is overall improvement in the level of information available on public financial management, due to improved reporting. The budget process is comprehensive, and sectors are provided with budget ceilings and multi-year aggregate fiscal forecasts and forward expenditure estimates that are prepared on a rolling annual basis. The budget is realistic and policy sensitive and is, to the extent possible, implemented as intended.

There are, however, significant weaknesses that must be addressed to generate public confidence in the manner in which public finances are being managed. The roll-out of IFMS is, for example not on schedule. Although IFMS has improved the quality of information within and from the pilot sites, arrears continue to occur in IFMS pilot sites due to non-recording of all commitments. Furthermore, although the Commitment Control System is being implemented, MDAs still run arrears – which are affecting fiscal discipline and service delivery efficiency. Although MDAs are provided with MTEF budget ceilings to facilitate their planning and budgeting, fiscal allocations are often cut arbitrarily by MFPED without providing adequate explanation or warning. The integrity of the payroll is undermined by lack of regular reconciliation of the payroll, staff/ personnel list and the establishment list. No independent payroll audits have been conducted in the last three years. The proposed Integrated Personal and Payroll Systems (IPPS) have not yet been implemented and have delayed improved payroll controls.

The indicators for a strengthened local government system are "*percent of LG (own) revenue as share of LG budget and percent of transfers as a share of LG budgets that is unconditional*". Local governments are under-funded considering their extensive mandate and are too reliant on central government transfers to exercise discretion in local priority setting. Local government transfers peaked at 33% of the national budget in FY 2000/2001, but have since declined to 23.2% of budget allocations in 2004/2005 and are estimated at 21% in 2006/2007. Local government revenues have continued to decline, further reducing local discretion, because of the high conditional element in grants. The share of unconditional grants of total transfers has decreased from above 15% in 2000/01 to less than 11% in 2006/07. Most of the unconditional grants are devoted to wages and therefore not serving the purpose of being unconditional.

The situation took a dramatic turn for the worse in 2005/6 following abolition of the Graduate Tax (G Tax) which formerly constituted the majority of local revenues for local governments: In FY 2001/02 G Tax represented 67% of local revenue for rural local governments and 25% for urban local governments, while the figures for 2005/06, though lower at 60% and 20% for rural and urban councils respectively, were still very significant. The ongoing sessions of the Public Accounts Committee (PAC) of Parliament have also revealed a lack of coordination/linkage between the Parliament at National level and the District Councils in the law making and budgeting process. This link is crucial to strengthen accountability and enhance capacity of the local governments.

The excessive cost of public administration constitutes a major challenge to realisation of improvements in local government service delivery. The rising cost of public administration is a concern affecting all other Pillars, but more particularly in the area of service delivery in Pillar 5. The rise in the cost in public administration is mainly due to the growth in the number of districts from 39 at the start of the decentralisation process to about 80 at present. For every district created, a minimum additional administrative overhead cost of about UShs 1.3 billion is created, excluding other direct costs such as for housing, transport and fuel. Of this, about UShs 40 million will be directly incurred by the district from its own resources. Financial implications arise from the appointment of district political appointees and their support teams, running of local governments at the district, sub-county and municipal levels, additional members of parliament from newly created constituencies and ensuring access to social services.

The reason advanced for the creation of the new districts is “to take services nearer to the people.” It is not clear, however, whether this supposed benefit from the creation of more districts outweighs the increased administrative overhead that has resulted – as demonstrated by reviews of past budget performance. In addition, some of these new districts, and the now much smaller “mother” districts, may not be economically viable because of their small size and lack of an economic base. Table 6-2 attempts to analyse the benefits and costs of creating a new district. The cost does not include the cost of elections and sustenance of new MPs in the newly created districts.

**Table 6-2: Additional Costs for Each New District Created per Annum**

| **Cost Element** | **Cost in Shillings** | **Comment** |
|---|---|---|
| Councillors’ allowances for special interest groups created for each new district (women, youth, disabled) | 12 million | About 12 new women, youth & disabled councillors are created per district. A district council meets about six times a year & each gets about 0.96 million |
| Salaries of district executive office (Chairman plus six executive secretaries) | 20 million | A chairman gets about 0.5 million per month while each of the six secretaries get about 0.2 million per month |
| Salaries of district technocrats | 1.2 billion | District technocrats include all civil servants that are employed and paid by the district |

### 6.7 Accountability and Corruption

The policy framework to address corruption is quite comprehensive ranging from policy statements/action plans and benchmarks, a regime of anti-corruption legislation, institutional mechanisms and the political will to fight corruption. The economic burden which corruption places on the economy by way of high revenue shortfalls, and the attendant effects on service delivery, and diminished investment confidence among others, should provide a strong motivation to tackle the problem with the seriousness it deserves. The modest gains in the control of corruption must be guarded and given further thrust. Increases in the demand for accountability coupled with an increased demonstration of political will are essential.

The 1995 Constitution of the Republic of Uganda establishes the Inspectorate of Government, the Auditor General and the Leadership Code of Conduct as well as other law enforcement agencies which handle criminal activities including acts of corruption. Other supportive legislation includes the Penal Code, Trial on Indictments Decree, and the Public Procurement and Disposal of Public Assets Act. Other efforts to enhance accountability have involved the establishment of Judicial Commissions of Inquiry into high profile corruption incidents. These include inquiries into Human Rights Abuses (1966-1986), the Effectiveness and Efficiency of the Justice system (1995), The Banking Sector, Purchase of Junk Helicopters, Corruption in the Police Force and the Global Fund on HIV/AIDS, Malaria and Tuberculosis. The challenge with these remains the apparent lack of commitment by government to act on the recommendations given.

The legal and regulatory framework for procurement is considered to be generally sound, but its implementation and enforcement of the rules and procedures is weak. The problem is due to low capacity and understanding of public procurement issues by procurement staff and senior management, complexity of the regulations, collusion and price fixing and political interference. A recent National Public Procurement Integrity Baseline Survey estimates that between 2.2% – 3.0% of the annual budget of local governments (equivalent to Ushs 32-86 billion or US$ 17.9-23.6 million), and between 2.5% - 3.1% of the annual budget of central government (equivalent to Ushs 84 – 106 billion or US$ 43.4 – 61.3 million) may have been lost to procurement related corruption in FY 2004-2005. The impact of capacity building and popularisation of procurement rules and procedures can not be anticipated in the short-term. These should take root before an evaluation of the procurement rules and procedures from an effectiveness and efficiency perspective can be undertaken.

A major effort has been undertaken to audit public accounts in spite of the significant financial and capacity weaknesses facing the Office of the Auditor General (OAG). In the year ended June 30, 2005 OAG audited *all* 83 central government bodies (including universities, foreign missions and URA), 50 out of 72 statutory agencies and 70 out of 91 projects. However, only 6 out of 135 higher local governments and *none* of the 896 lower local governments were audited. Taken together, out of a total number of 1277 accounts for FY 2004/2005 AOG audited 209, 131 were under progress while 937 were outstanding. In terms of the quality of the accounts, 20 out of the 83 (i.e. 24%) central government accounts were unqualified while the balance was either qualified (57) or with a disclaimer (6). It is clear that in spite of its valiant efforts the AOG needs significant strengthening to enable it to execute its mandate and to take its operations to a higher level. For example, it was only able to conduct two VFM audits in 2004/2005 out of a total of 72 statutory bodies for which it is responsible.

The ability of parliament and its committees to analyse audit reports and related financial information is still weak. Scrutiny of public accounts by the Public Accounts Committee (PAC) is lagging behind, with PAC reports being completed only up to FY 1999/2000. This weakness is also manifested by the Parliamentary Committee on Commissions, statutory Authorities and State Enterprises (COSASE) which has also been dormant for a long time. Local Government Public Accounts Committees are not effective either, largely due to capacity weaknesses and under funding. Furthermore, although transfers of funds from central to local governments are fairly regular, the fiscal position of higher and lower local governments is not monitored on a regular basis. Thus, there is considerable fiscal risk. Government will soon implement the Financial Management and Accountability Project (FINMAP) which is intended to provide a comprehensive answer to these weaknesses.

*"Per cent perceived incidence of corruption measures by the National Integrity Survey (from 23 to 12%)" and "per cent satisfaction with Local Government Services"* are the indicators of reduced corruption. Corruption in Uganda is increasingly viewed as systemic with the incidence of petty corruption rising as found by both the National Integrity Surveys of 1998 and 2002. The National Service Delivery Survey 2004, reports that bribes were paid in at least 7% of all cases that were brought to various institutions including Local Councils, police, and courts. Corruption in other institutions such as local governments, hospitals, education facilities and among extension workers was also relatively high. Based on reports of CSOs, the media and Commissions of Inquiry, the incidence of grand corruption is also quite high and a number of high level cases have been endlessly debated including the Global Fund, the National Medical Stores, Kampala City Council, and Energy reform procurement. The ongoing activities of the energised Public Accounts Committee of Parliament continuous to unearth cases of massive corruption at all government levels while the recently released National Public Procurement Integrity Baseline Survey confirmed that a huge percentage of government resources meant for poverty eradication programmes (up to US$ 64- 85 million) was lost due to corruption in the procurement process at central and local government level.

The National Anti Corruption Strategy (2004-2007) is a step in creating a common framework for all stakeholders in the fight against corruption. Key challenges remain the weak institutional capacity (affecting performance) of key institutions including the IGG, DEI and Auditor General to effectively implement their mandates; an inadequate legislative and regulatory framework, and ineffectual implementation of key acts including the Leadership Code Act. While progress has been made at process level e.g. in enhancing coordination of the Anti Corruption Agencies (through the Inter Agency Forum and the Review Mechanism); awareness raising, development of Codes of Conduct, and the enactment of some laws e.g. the Freedom of Access to information, the gains made in reducing corruption remain modest and a number of crucial laws including the Whistle Blower Protection and Prevention of Corruption Act have been pending in the legislative reform process for too long.

A recent public Opinion Poll conducted by the Monitor Newspaper[4] through Steadman Associates shows that Ugandans believe corruption is on the rise and have little confidence that the government can rein it in. 48% of respondents said corruption in government institutions had increased, 28% said things had remained the same while 19% said corruption was reduced. Interestingly, when asked if they believed the government was committed to fighting corruption, 59% of all respondents said “NO” signalling low confidence in government’s political will and commitment to fight corruption. Similarly, 62% - 65% of all households surveyed in the National Service Delivery Survey 2004 indicated knowledge about how to report extortion or embezzlement negating the notion that the public lacks awareness and knowledge of elements of corruption and key institutions. A relatively high number (20-25%) indicated they would not report - citing fear of retribution and a belief that the system was ineffective and no action would be taken. Other stakeholders including development partners have signalled low perceptions of government’s political will to fight corruption largely due to poor follow up on media reports and implementation of recommendations of commissions of inquiry. Development partners continue to discuss the possibility of cutting aid in relation to this issue but unless and until a unified step is taken by all stakeholders (including the Private Sector and CSOs) to hold government increasingly accountable e.g. through successful prosecution of cases and enforcement of stricter penalties, these threats remain ineffective in prompting government to act.

The absence of an effective monitoring system cutting across all systems of government at national and local level has hampered the measurement of progress at institutional and national level leaving stakeholders to rely on national and international perceptions of key indices. Recent reports of the Transparency International Corruption Perception Index (Table 6-3) and the World Bank Governance Indicators (Kaufmann *et al*, 2006) both indicate a *slightly* improved perception of corruption in Uganda over the last few years. Uganda ranked 105 out of 163 countries surveyed, and progress in areas of voice and accountability, rule of law and control of corruption was evident. These findings should however be viewed cautiously taking into account ongoing debates about the levels of corruption in the country that have greatly influenced perceptions.

**Table 6-3: Uganda’s ranking on Corruption 2001-2006**

| Year | CPI Score | CPI rank |
|---|---:|---:|
| **2001** | 1.9 | 88/91 |
| **2002** | 2.1 | 93/102 |
| **2003** | 2.2 | 113/133 |
| **2004** | 2.6 | 102/145 |
| **2005** | 2.5 | 117/159 |
| **2006** | 2.7 | 110/163 |

*Source: Transparency International, 2001- 2006.*

The key issue remains as to how effectively the government can reduce corruption which causes a huge haemorrhage on resources for poverty eradication. It is worth noting that the majority of institutions charged with fighting corruption and enhancing accountability at the same time face challenges of strengthening their own internal accountability. One of the solutions lies in truly strengthening respective institutions to enhance administrative processes for prevention and punishment while empowering communities and the public to hold the government to account e.g. though effective civic education and passage of the Whistle Blowers Protection Act.

[4] The Monitor Newspaper 17th and 18th October 2006.

### 6.8 Budget Allocations

The total, planned expenditure of public administration in 2005/06 amounts to 19.1% of the total budget for all pillars, and when added to the budget of Pillar 1, which can be seen as another aspect of strengthening good governance, the figure goes to 21.5% of the total budget. This seems to be a very high transaction cost when considering that there are also administrative costs of the other pillars. This calls for a critical review of all the administrative bodies involved in the management of good governance, to highlight possible over-lapping, repetition or duplication and lack of complementarity between the agencies involved. A detailed functional analysis of the numerous agencies and organisations involved in the pillar should also disclose the efficiency of the various agencies and possible areas of redundancy, under-resourced functions and possible wastage and under-utilisation.

The MTEF and donor projects within pillar 4 display considerable increases in expenditures over a period of eight years (Table 6-4). In constant prices expenditure has increased by 90% since 1999/2000, which is considerably higher than the budget for all pillars. The overall growth has been 60%, and expenditures in 1999/2000 represented 17% increasing to 24% in 2006/07.

**Table 6-4: Additional Medium Term-Expenditure Framework, incl. Donor Project for Sectors / Votes Covered by Pillar 4 (Ushs billion, constant 1999/2000 prices)**

| Sector | 1999/00 (revised budget outturn) | 2000/01 (approved budget estimates) | 2001/02 (approved budget estimates) | 2002/03 (budget outturn) | 2003/04 (budget outturn) | 2004/05 (budget outturn) | 2005/06 (budget outturn) | 2006/07 (approved budget estimates) |
|---|---|---|---|---|---|---|---|---|
| Justice / law and order | 92.53 | 91.58 | 112.78 | 122.16 | 152.30 | 138.23 | 129.06 | 135.47 |
| Accountability | 11.65 | 16.82 | 19.87 | 24.06 | 186.11 | 151.08 | 123.91 | 136.42 |
| Public sector mgmt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 158.87 | 178.73 |
| Public administration - less URA | 222.20 | 219.00 | 254.08 | 257.78 | 241.93 | 284.58 | 146.61 | 165.75 |
| Good governance sub-total | 326.38 | 327.40 | 386.73 | 404.01 | 580.33 | 573.90 | 558.45 | 616.38 |
| Total budget | 1,759.07 | 2,121.88 | 2,254.87 | 2,135.09 | 2,344.42 | 2,483.87 | 2,641.07 | 2,841.92 |

*Source: Calculations based on MTEF and GOU price deflator for Government consumption.*

# 7 Pillar 5 - Human Development

## 7.1 Overall Trends

The key PEAP priorities for the human development Pillar are:

- Primary and secondary education: with a clear focus on quality and the ultimate objective of learning, and better targeting of public expenditure on secondary education at those who could not otherwise afford it;
- Improving the access, coverage and quality of the water supply and sanitation facilities;
- Improving health outcomes;
- Increasing people's ability to plan the size of their families; and,
- Community empowerment including adult literacy.

The performance of the key results areas of the human development Pillar of the PEAP is cast against a fast growing population (3.2%); over-utilisation of natural resources and degradation of the environment and a diminishing MTEF budget share (the total share has dropped from about 37% in 1999/2000 to 30% in 2006/07). There is an extreme poverty situation in areas of the country affected by conflict with human development indicators considerably lower than the national average. The high population growth rate strains both access and quality of service delivery. The indicators for Northern Uganda across the human development Pillar are way below the national average. The population growth rate in the North is as high as 4.6%, which further underlines the necessity to target development interventions and improve outcomes in the region. At the current population growth rate of 3.2% per annum Uganda is slated to double yet again in 2025 to a population of 55 million people. Such a rapidly growing population poses both opportunities and challenges. The opportunity of a surge in a cohort of young people, aged 15-64 years, which is the real labour force of any nation, can be an engine for economic growth if they are healthy, educated, and skilled and have employment opportunities.

The HIV/AIDS prevalence rate is currently at 6.4%, a slight increase from the baseline value of 6.2% in 2003/2004. HIV/AIDS prevalence among women is higher than among men at 8% and 5% respectively. HIV/AIDS generates multiple human development reversals in areas such as mortality rates and the quality of social capital. The slight increase in prevalence rate could suggest that the gains made by Uganda in fighting the epidemic are being eroded.

Gender disparities still persist. Nevertheless, trends show significant progress in the gender parity index for primary school enrolment and attendance. If maintained, the gender parity at primary school level is likely to contribute towards reduced gender disparity in literacy rates currently at 80% for men and 58% for women. Primary school enrolment is at 90% and on track, but less than half of those who enrol in primary school stay until completion. Rural water supply coverage gradually rose to 61% in 2004/05 and stagnated at this level for 2005/06 mainly due to a fast growing population outpacing the gains made. There was a downward trend in access and quality of health services. Sanitation hardly showed any improvement with potential negative consequences for accelerating progress in both health and education. There is a slight decrease in the overall literacy rate at 69%, with an increase in the literacy rate for men to 80%, but a decrease in the literacy rate for women from 62% to 58%.

Community mobilisation and empowerment as an enabler for human development has not been prioritised. Although difficult to substantiate, this has negative implications for literacy, sanitation, nutrition, family planning, primary health care, and entrepreneurship/local economic development (including agriculture), which can only be sustained if communities are actively engaged and take responsibility. Evidence available on the performance of contributing factors towards infant mortality rate, maternal mortality rate and nutritional status questions the likelihood of meeting both the PEAP (2007/2008) and MDG targets (2015). The weakening of the local governments' fiscal base further strains the ability to effectively manage and monitor service delivery and meet the above targets.

## 7.2 Education

Education is recognised as essential to develop and sustain human capital and achieve the overall PEAP Key Result Areas (KRA). The Education sector has been amongst the first sectors to establish a coherent long-term strategy, the Education Sector Strategic Plan (ESSP) 2004-2015, with joint reviews and strong coordination and alignment of the support from the development partners - a genuine Sector Wide Approach (SWAp). Focus has moved gradually from expanding access to primary education towards stronger emphasis on quality, and more recently on expanding access to Universal Secondary Education (USE). The PEAP seeks to achieve a better educated society through the following Key Result Areas: "*increased enrolment at primary, post-primary and tertiary education levels; improved quality of primary and post primary education services, and functional adult literacy*".

The policy question regards alignment of investments in human capital development with the social and economic growth objectives of the PEAP. There is a need to analyse and establish the link between human capital development and its contribution to the rate of growth of economic development. An assessment of the human/social capital required to support Pillar 2 objectives would inform policy choices to be made in setting the PEAP priorities. The education sector's share of the total budget has experienced a gradual, albeit small, decline from 18.8% in 2003/04 to 17.6% in 2006/07. This is below its share of about 20% at the beginning of the decade, which is also the PEAP target for 2013/14. It will require a significant increase in the resource allocation to the education sector and/or higher efficiency in the use of current resources to address these challenges and fulfil the objectives.

### 7.2.1 Primary education

Significant progress has been made in increasing enrolment for primary education. The baseline value for 2002/2003 was 86.7% (87% for boys and 86.4% for girls). This increased to 91.7% (90.4% for boys and 93.0% for girls) in 2006. The development is above the PEAP target of 90% for 2007/2008 and there is optimism that the 100% MDG target for 2013/2014 will be met. According to UNHS data total enrolment has increased slightly from 7.5 million in 2002/03 to 7.6 million in 2005/06. Overall, net enrolment has remained static at on average 85% over the last five years. The ministry of education net enrolment rate is consistently higher than the UNHS data, because of different methods used. Investments in expansion of basic education infrastructure and facilities (particularly increases in the number of schools, classrooms and teachers' houses), improvement in availability of training materials, increase in number of skilled and trained teachers have contributed to maintaining and slightly increasing the enrolment level. There has also been focus on creating access for children with special needs and promotion of gender parity.

The 2006 Uganda Demographic Health Survey (UDHS) shows that among primary school-age children, only 82% attend school (with an urban:rural ratio of 88:81). The gap between enrolment and attendance is amongst others attributed to the high cost of uniforms, scholastic materials, and feeding requirements. The UNHS 2005/06 showed that 40% of children dropped out of school because of high costs. Regional equity is an issue. The North has the lowest proportion of primary-school-age children attending primary school (74%) and Karamoja, classified as a sub-population of the northern region, has a net attendance ratio of only 43%. The conflict and a multiplicity of poverty related problems are explanatory factors. The national and regional gross attendance ratios, with the exception of the North and Karamoja, all exceed 100%, meaning that there are more students attending primary school than there are primary-school-age children. The 2006 UDHS states that this most likely indicates a large number of over-age students attending primary school.

The quality of primary education should potentially improve based on the progress of the following indicators: improvements in teacher-pupil ratio from 58:1 in 2004 to 48:1 in 2006; pupil classroom ratio from 97:1 in 2004 to 76:1 in 2006; pupil text book ratio from 3:1 2004 to 1:1 ratio in 2006. However, this trend must be sustained over a number of years to positively influence the long term performance challenges, which include low literacy rates – 69%; and low proficiency rates (pupils reaching competency) in Primary 3, literacy is 38% and numeracy is 41%. These low performance rates emphasise the need for a comprehensive approach to quality improvement. Potential initiatives to reinforce the positive indicators listed above include the introduction of the thematic curriculum in local languages in lower primary (P1-3), which is presently being piloted in 11 districts. However, other policy actions relating to quality improvement have not been funded. This includes review of teacher education curriculum, learning materials, textbook development and distribution.

No firm data exists on teacher and pupil absenteeism, but an Action Aid study estimates that teachers are absent between 4 and 8 days a month. HIV/AIDS is mentioned as a major cause but more factors contribute to absenteeism. Teacher absenteeism is starting to be addressed through performance contracts with head teachers and establishment of career paths for teachers. An increase in the general level of teachers' salaries took place in 2006, but is not part of an overall strategy to address the underlying structural issues, particularly the problems of hard ship in remote areas.

The primary school completion rate had dropped from 56% in 2002/03 to an alarming 48% in 2006 against a PEAP target of 69%. Although the Ministry of Education (MOE) gives the explanation that teachers 'filter out' students, who are expected to fail, so they do not register for exams, there is a need to further investigate and explain why the completion rate increased to 60% in 2003/2004, then dropped to 51% in 2004/2005, and declined further to 48% in 2005/2006. The issue to be raised is if the policy of automatic promotion should stand, when the policy is not implemented.

Overall, the trends above show a high enrolment rate, followed by a drop in attendance and a vast decline in completion. This picture questions the efficiency of the education system. On the supply side, an analysis of effectiveness and efficiency, i.e. management issues including value-for-money tracking, level of monitoring and inspection, level of capitation grants, incentives for the teachers and high pupil-classroom ratios in some areas is warranted. On the demand side, an in-depth analysis of contributing factors, such as affordability, opportunity costs for labour, adolescent pressure, lack of separate sanitation facilities for girls, peer pressure and level of parental mobilisation, should be undertaken.

### 7.2.2 Secondary education

The baseline value for gross enrolment in secondary education was 18% in 2002/2003 and remained at the same level in 2005. Secondary education is subdivided into three subcategories: Government, Private and Business Technical Vocational Education and Training (BTVET). Private secondary schools had an enrolment level (347,247 students) almost equal to government schools (366,362 students) in 2002/03. Overall the increase in numbers for both categories was negligible and stood at 349,682 for private and 388,525 for government schools in 2006. BTVET registered a decline from 26,313 in 2002/03 to 15,586 in 2006. No information is available to shed light on the BTVET system's potential importance for the overall education system, and it is therefore not possible to draw any conclusions on the low number of enrolment and the apparent static performance of the system.

The UDHS 2006 showed that 16% of secondary-school-age children are in secondary school, with 35% of these in urban areas compared to only 13% in rural areas. The survey also showed that secondary school attendance ranges from 44% in Kampala and a mere 5% in the North. Although the survey found the overall Net Attendance Ratio (NAR) for secondary school slightly favours girls with a Girls Power Initiative (GPI) of 1.01, there were several regions in which girls aged 13-18 have much lower secondary school attendance than boys, including those of Central, North, and West Nile Regions. In IDP camps, the GPI for the secondary female to male NAR is only 0.17. The GPI for Karamoja could not be calculated because the sample did not include any males aged 13-18 who attended secondary school.

The expansion of the UPE towards Universal Secondary Education (USE) to be gradually introduced from 2007 will require large resources. This needs to be properly budgeted for to make the introduction successful. Stagnation in budget allocations to the education sector in real terms from 2006/07 to 2007/08 and the possibly negative real growth from 2007/08 to 2008/09 are going to affect the ability to meet the targets. While the completion rate of Senior Four was 13.4% in 2000, a decrease to 10% was registered in 2005. The introduction of USE is expected to have an impact on this trend within the next four years, but a study to establish the causes of the decline needs to be undertaken to be able to set the best priorities within the given constraints.

### 7.2.3 Tertiary education

The enrolment rate in tertiary education has increased from 88,330 students in 2003 to 124,313 in 2005. A thorough analysis of the completion rate and the types of candidates produced in relation to the needs of society would shed light on how the tertiary education system performs in relation to the country's overall needs for human resources.

### 7.2.4 Adult literacy

The baseline value for improved adult literacy works with two proxy indicators. The first relates to output of 'beneficiaries of functional literacy programmes'. There are no statistics to support this indicator, and a baseline value was never defined, nor was there any progress data to support an analysis. The second indicator measures 'improved literacy'. The baseline value (2003/2004) was 70% with a gender distribution of 77% for men and 62% for women. The progress data shows a slight decrease in the overall literacy rate to 69%, with the gender disaggregated data showing an increase in the literacy rate for men to 80% and a decrease in the literacy rate for women to 58%. The increased gender disparity calls for close monitoring. The UNHS reports that 20% of Ugandans have no formal education at all. In the poorest quintile of Ugandans, 35% have had no formal education. Improving adult literacy is an enormous challenge, which calls for policy attention and action.

## 7.3 Health

The Poverty Status Report 2005 reveals that 16.3% of households identified health-related problems as the most important factor that influenced a decrease in welfare. The PEAP policy and results matrix envisages seven KRAs to realise the outcome targets under the strategic objective of 'healthier Ugandans'. The indicators identified for health cannot be narrowly perceived as health based; factors both within and external to the Pillar impact on the performance. Some of the intra Pillar factors include linkages between education, literacy, sanitation, population growth and community mobilisation, while external ones include *inter alia* energy supply, transport, security and technological advancement to mention a few.

In 2006/07 a roadmap was launched to accelerate reduction of the maternal mortality rate (MMR) and Infant Mortality Rate (IMR), including scaling up evidence based interventions notably increasing access to emergency obstetrical care (Emoc); revitalisation of family planning services; increasing access to ante natal care and providing adolescent sexual reproductive health services; promotion of new born care and inter agency coordination that may lead to better outcomes in 2006/07.

Overall there appears to be downward trends in the main indicators for attaining the objective of healthier Ugandans. Such a declining trend will have negative spill-over effects on the entire performance of Pillar 5 and indeed the KRAs of the PEAP. Low investments in health facilities across the country are resulting in inadequate access to health services for poor and hard-to-reach people. These include low investment in expanding the labour force related to the health sector, low implementation of community based health promotion initiatives, dissatisfaction and low morale among some of the health workers, and lack of incentives to work in remote areas. These are increasingly making it difficult to enhance health services throughout the health system. Furthermore, these downward trends have serious implications for the population's trust in government health facilities, and the quality of service delivery. This situation can contribute to undermining both the key indicators relating to a decrease in child and maternal mortality rates. The health sector has invested in, and should in the medium to long term evaluate the impact of, the following initiatives on health seeking behaviour: communication strategies for the minimum health care package, tuberculosis, family planning revitalisation, reproductive health and the new malaria treatment policy; and village health team (VHT) training and communication handbook for community leaders, extension workers, health CBOs and teachers.

The proxy indicators for the PEAP key result area of "improved key strategic health objectives" are "Infant mortality rate (IMR), maternal mortality rate, percentage of population malnourished, and HIV/AIDS prevalence rate". A performance assessment against the indicators has to rely on medium- to long-term trends. The review was constrained by the lack of up-to-date supporting data sets for the proxy indicators, and relied more on analysing the dynamics of contributing factors.

### 7.3.1 Infant mortality rate

The baseline value of the "*infant mortality rate*" was 88 per 1,000 live births in 2000/01 with a PEAP target of 68 per 1,000. The critical contributing factors include the major childhood illnesses, immunisation coverage, the treatment and control of malaria, and community mobilisation towards healthy and sanitary behaviour (including hygienic practices, responses to immunisation, sanitation coverage, nutrition, and family planning).

Among childhood illnesses malaria alone contributes 51%, diarrhoea and vomiting - 19%, pneumonia - 9%, measles - 8%, anaemia - 8%. Neo-natal mortality constitutes 40% of infant mortality rate. Data from the 2006 UDHS shows that 45% of children under age five had symptoms of acute respiratory illnesses (ARI) or fever. Almost three-quarters of these children were taken to a health facility or provider. The prevalence of symptoms of ARI or fever ranges from 25% of children under the age of 5 in Kampala, to 55% in the North and 56% in Eastern Uganda. The prevalence of diarrhoea within children under age five in the North is more than twice as likely as for children in Kampala (36% compared with 17%).

Evidence on immunisation coverage shows that 46% of children aged 12-23 months were fully vaccinated against the major preventable childhood illnesses (TB, diptheria, pertussis, tetanus, polio and measles). The PEAP results and policy matrix focuses on percentage of children immunised for Diphtheria-Tetanus-Pertussis 3 (DPT 3). The baseline value for immunisation coverage of DPT 3 was 83% for 2002/03 with a target of 90% for 2007/08. According to the Annual Sector Performance report 2005/06, immunisation coverage for DPT 3 stands at 84% for 2005/2006, which - although a good indicator for coverage - represents stagnation over the period concerned. Furthermore, whereas about 90% of children received their first vaccinations against TB, diphtheria, and polio, the proportion of children, who received the second and third dose of these vaccinations, declined considerably. Some of the explanations for the trend include: busy schedules of mothers, child illness, mother illness, lack of presentable clothing, absence of a vaccinator, inconvenient timing and vaccine stock outs. Education of mothers was also noted to affect immunisation coverage. Only 39% of children with uneducated mothers were immunised, compared to 58% of children with mothers having a secondary and/or higher education.

The malaria/fever prevalence decreased from 60% in 2002/03 to 50% in 2005/06. Performance on the treatment and control of malaria shows that beyond the introduction of free pre-packaged home-based malaria treatment and the abolition of taxes on mosquito nets, a more concerted effort is required for the treatment and control of malaria. As a proxy for determining use of mosquito nets as a preventative measure, the UNHS found that 17% of the population (male and female) had slept under a mosquito net the night prior to the date of interview. The UDHS 2006 preliminary data shows that although 34% of Ugandan households own a mosquito net, only half (16%) has an insecticide treated net (ITN). Just 11% of children under age 5 and pregnant women slept under an ITN the night before the UDHS. The 2006 UDHS further shows that among children who had fever in the two weeks preceding the survey 62% took an anti-malarial drug and less than half of those (29% of children with fever) received the anti-malarial drug the same day as the onset of symptoms or the next day. The Health Sector Annual Performance report indicates that the proportion of under-fives, who receive malaria treatment within 24 hours from a Community based drug distributor (CDD) improved from 55% in 2004/05 to 60% in 2005/06.

### 7.3.2 Maternal mortality rate

The *maternal mortality* rate was at 505 per 100,000 live births in 2000/01 with a PEAP target of 354 per 100,000 live births in 2007/08. Factors contributing to reduction of the maternal mortality rate include improved access to delivery in health centres, improved access to Emoc; preventive malaria treatment during pregnancy and increased access to ante natal care. Adequate staffing at health units; and adequate drugs, blood and equipment are also important factors. Other factors that negatively affect the delivery of health services include the link between education levels and access to antenatal care/delivery in health centres, delays at home (due to financial dependency, poverty, etc), inadequate and poor transportation; and unreliable and severe energy and water shortages.

The Annual Sector Performance report 2005/06 shows that access to Emoc was scaled up contributing to an increase in deliveries in public and private not for profit (PNFP) facilities from 24.4% in 2002/03 to 29% in 2005/06. The report indicates an increase in the proportion of women receiving a complete dose of Intermittent Presumptive Treatment (IPT 2) from 30% in the preceding year to 37%. This was against the year’s target of 40%. In a long term perspective, the UDHS 2006 shows that while mothers of half of the last live births in the five years preceding the survey took anti-malarial drugs for prevention during pregnancy, only 17% received complete IPT (WHO recommends that pregnant women receive two doses of sulfadoxine-pyrimethamine (SP) during the second and early in the third trimester of pregnancy) during an ante natal visit for their last live birth.

Antenatal care (ANC) from a trained provider is important to monitor and treat complications in pregnancy. According to the 2006 UDHS results, 94% of women, who gave birth in the five years preceding the survey received ANC from a health professional at least once. Although there is a slight variation in use of ANC by region, the percentage of women who have at least one ANC visit is 90% or higher in every region. 68% of women who gave birth in the five years before the survey received tetanus toxoid injections and were therefore protected against neo natal tetanus for their last births. The indicators on "*improved access to maternity services*" show that the percentage of deliveries in health care centres improved slightly from 25% to 29% against the PEAP 2007/08 target of 50%.

### 7.3.3 Malnutrition

The PEAP does not include any baseline data or targets for the percentage of the population, which is malnourished[5]. Evidence on the nutritional status of children is an important indicator, because under-nutrition places children at increased risk of illness and death and is related to impaired mental development. Nutritional status has an impact on pupils' ability to learn and complete primary education and is key in the management of communicable and non-communicable diseases such as HIV/AIDS. The key factors contributing to malnutrition include limited access to land, food shortages, shift from subsistence to commercial agricultural production, challenges of food processing and storage, and gaps in community mobilisation.

The 2006 UDHS preliminary data shows that 32% of children under the age of 5 are short for their age; while 12% are severely stunted. This is attributed to failure to receive adequate nutrition over an extended period and recurrent or chronic illness. About 5% of children in Uganda were wasted indicating failure to receive adequate nutrition due to rapid deterioration in food supplies or illness episodes (especially diarrhoea). One in five children was underweight, reflecting the effects of both acute and chronic under-nutrition. Rural children are almost 50% more likely to be stunted and 54% more likely to be underweight than urban children. The proportion of children who are underweight ranged from 12% in Kampala to 28% in the North. In Karamoja this proportion was 49%. Women with secondary education (or higher) are less likely to have children who are stunted or underweight than women who have no education or primary education.

### 7.3.4 HIV/AIDS prevalence

Results from the 2004/05 Uganda HIV/AIDS Sero-Behavioural Survey (UHSBS) show *the HIV/AIDS prevalence rate* to be 6.4%, which is a slight increase from the baseline value of 6.2% in 2003/04. The number of new infections per year is on the rise. As elsewhere in East and Southern Africa, HIV/AIDS prevalence is higher among women than among men at 8% and 5% respectively. Age and sex-specific prevalence of HIV/AIDS shows that prevalence for both men and women increases with age until it reaches a peak, which for women is attained at ages 30 to 34 (with the prevalence rate of 12%) and for men at ages 35 to 44 (with a prevalence rate of 9%). Regions with the highest HIV/AIDS prevalence are central region and Kampala (9%) and North central region (8%). HIV/AIDS prevalence increases with wealth.

The health sector has made interventions on HIV counselling and testing, AIDS care and treatment, Anti-retroviral therapy (ART) and prevention of mother to child transmission (PMTCT). The magnitude of the epidemic still requires continued and enhanced investments in prevention, care and treatment. Particular emphasis needs to be put on preventive interventions to protect young women.

### 7.3.5 Health care services

In the key result area "*improved utilisation of health care services*" the indicator of outpatient department (OPD) utilisation rate in both government and Private Not For Profit (PNFP) is used as a proxy measure for both the quality and quantity of services (supply side) and the health seeking behaviour of the population (demand side). The baseline value for 2003/04 is 0.79 per capita. Performance was at 0.9 attendances per capita in 2004 and stagnated at this level in 2005, against a target of 1.0 for 2007/08. According to the Health Sector Strategic Plan (HSSP) annual review, the

[5] Malnourishment is classified according to three anthropometric indices of nutritional status: height-for-age, weight-for-height, and weight-for-age. Children whose height-for-age is below minus two standard deviations from the median of the reference population are considered stunted or short for their age. Children whose weight-for-height is minus two standard deviations from the median of the reference population are considered wasted or thin, while those whose weight–for-age is below minus two standard deviations from the median of the reference population are considered underweight.

stagnation in the utilisation of outpatient services is attributed to the lack of inputs like financing for primary health services, especially for medicines and supplies, increasing levels of medicine stock outs recorded at health facilities and challenges in health services management.

In assessing the utilisation of health facilities, a key question to address is whether the poor benefit most from public health services. The findings of the UNHS 2006 on medical attention show an increase in use of private clinics (from 40 to 45%) between 2002/03 and 2005/06. People preferred the private clinics to the Government health centres (26%). The preference for private clinics was reported to arise from private health workers acting more professionally and even offering services on credit. Long distances were also cited as one of the factors limiting access to health facilities. 48% of the households reported that they visited private clinics that are within a radius of 5 km, while most hospitals were located in a radius of over 5 km (26%). The evidence suggests that there was increased spending on health care at household level thus threatening the ability of the population to escape from poverty.

The key result area of "*improved quality of health care*" has two proxy indicators. The first indicator covers the percentage of approved filled posts by formally trained health workers with a baseline value of 68% for 2002/2003 and a target of 90% in 2007/2008. Preliminary reporting on this indicator shows that the numbers of formally trained health workers have increased. This indicator needs to be substantiated with data on absenteeism of staff. Increase in filled positions does not per se provide information on the quality of services, unless staff are present at the health facilities and have resources available for both preventive and curative tasks. The indicator must also be related to the indicator on "*drugs stock outs*" which measures the percentage of health facilities without any stock-outs of drugs. The baseline value was 40% for 2002/2003 with a target of 60% for 2007/08. Based on information from the sector reviews, the percentage of facilities without stock-outs of drugs was 35% in 2004 and decreased to 27% in 2005. This means that only about one quarter of all government health facilities are fully stocked all year round with the core essential drugs (chloroquine, fansidar, measles vaccine, depo prevera, oral rehabilitation salts and cotrimoxaxole).

Staff absenteeism, drug stock-outs etc. increase out-of-the-pocket expenses for services and drugs and hence exacerbates the vulnerability of poor people to disease. The cost of the Uganda National Minimum Health Care Package is estimated at US$ 28 per capita but the current level of funding is only about US$ 15 per capita, including large donor project funds and the AIDS Relief fund. This is a major contributing factor to the insufficient availability of essential drugs and increases in stock-outs. Underlying factors include a high population growth rate with a stagnant resource envelope, growing expenditures for HIV/AIDS treatment which put additional strains on the limited resources, and the rising cost of public administration (new districts requiring establishment and staffing of new health units hence diverting resources meant for core essential drugs).

#### 7.3.6 Family planning

The UDHS 2006 preliminary data shows that whereas the total demand for family planning has increased substantially (from 45% to 64%) since the 2000-2001 UDHS, the percentage of demand for family planning that is satisfied has decreased (from 45% in 2000-01 to 37% in 2006). The survey data shows that unmet need for family planning is higher in rural than urban areas, and it varies by region with Kampala having the lowest at 27% and West Nile with the highest at 47%. Unmet need is also high among women living in IDP camps. There is a correlation between level of education and unmet need. Women with no education are most likely to have unmet need for family planning (45%), followed by women with primary education (42%), and then women with secondary education or higher (27%).

The UDHS 2006 reports that the overall contraceptive prevalence rate (CPR) among currently married women is 24%, with 18% using a modern method. The most commonly used modern method is 'injectables' (10%), followed by the pill (3%). Contraceptive use was found to vary by residence and region. Women residing in the urban areas are more than twice as likely as those in the rural areas to use a modern contraceptive method (37% versus 15%). Use of modern contraceptive methods ranged from zero in Karamoja to 40% in Kampala. Given the significance of the population growth rate, with a range of 2.6% in Kampala to 4.6% in Northern Uganda including Karamoja, there is a need for a more specific targeting in delivery of family planning services.

## 7.4 Water and Sanitation

Improving the water and sanitation system is premised on a two-pronged purpose, namely: to improve health, considering that water-borne diseases are an important part of the disease burden; and to save resources (time, energy and money) that would be involved in collecting water and dealing with water-induced ill-health. The PEAP's strategic objective is: *"Improved water and sanitation system in Uganda"*. To achieve the required outcomes, the PEAP 2004/5-2007/8 lists key policy actions outlined in the two key Pillar result areas: "*Improving access to safe water supply and sanitation" and "improving water facility maintenance."*

### 7.4.1 Access to safe water and sanitation

The proxy indicator is the percentage of the population using safe water (disaggregated by urban and rural population). The baseline value in 2002/2003 was 55% coverage for rural and 65% for urban areas. Rural water supply coverage increased gradually up to 61% in FY 2004/05, and stagnated at the same level in FY 2005/06. It is not possible to establish a trend for urban water supply because of a change in the methodology used in computing the baseline value. For the first time in FY 2005/06, small and large towns were combined to give an urban coverage of 51%. The PEAP target of 77% rural water supply coverage by 2015 and 100% for the urban (target more ambitious than the MDG goal), must be treated cautiously considering that despite the increased expenditure in the sector, the outputs have not been able to keep pace with population growth and facility functionality is not yet 100%. Poor hygiene practices in maintaining a safe water chain diminish the quality of water that is finally consumed.

The UNHS 2005/06 found that the national average distance to the main source of drinking water was about a kilometre while the waiting time for water was almost half an hour. In contrast, findings for the northern region showed that although the average distance was about a kilometre, the average time taken in queues for water (54 minutes) was almost double the national average.

The proxy indicator for "*access to sanitation services*" is the percentage of rural and urban population using sanitation facilities, while the second indicator is latrine coverage. The baseline value of access to sanitation facilities for 2002/2003 was 56% for rural areas and 65% for urban areas. Focusing on the rural population that constitutes about 90% of the population in Uganda, there was a reported minimal quantum change of population using sanitation facilities from 57% in 2004/2005 to 58% in 2005/2006. Latrine coverage was 55.7% in 2002 and increased slightly to 57%. Similar to the situation with access to safe water, the high population growth rate and variations in population density continue to pose a major challenge for improved access to sanitation. Whereas the recommended standard of access for people per stance is 40:1, there are great variations across the country with some IDP camps posting a figure of 292:1 per stance, and in some schools the number of pupils per stance is 61:1.

The Ministry of Water and Environment (MOWE) 2006 reported that there are limited efforts to promote sanitation at local government levels. Improved sanitation practices are known to make a qualitative change in key human development indicators. The limited progress on use of sanitation facilities is therefore a worrying trend for the efforts to improve human development across the Pillar and will have a major bearing on the efforts to achieve the MDGs.

Sanitation investment was low, but could be increased if districts were pro-active and if prioritised coordination between the Ministry of Health (MOH), of Water (MOWE) and Education (MOES), which all have an important role to play in sanitation, improved. While existing water and sanitation sector grant schedules (guidelines) encourage expenditure on improved hygiene and sanitation, the Memorandum of Understanding on Sanitation between the key ministries remains dormant and the necessary coordination has therefore not been established. Improvement of peoples' hygiene and sanitation practices is of such importance that government involvement needs to be broadened to include mobilisation of civil society organisations and the private sector. The challenge though is to interest the private sector if the market potential is limited. Civil society organisations do play a role both in advocacy and service delivery, but strengthened coordination and accountability mechanisms must be in place to monitor the results. This can be a challenge, given the low level of coordination among the key government stakeholders.

### 7.4.2 Water facility maintenance

The indicator is "*percentage of rural water and sanitation facilities functional*". The 2002/2003 baseline value was 70% with a target of 85% in 2007/2008. The average national functionality rate of rural water supply increased from 70% (2003) to 80% (2004) to 81% (2005) to 83% (2006) with the low technology options (such as shallow wells that served the majority of the poor in rural areas) often found dysfunctional. It should be acknowledged that such technologies are difficult to maintain by communities. For higher technology options (especially in urban areas or rural growth centres), power blackouts, rising energy costs coupled with low tariffs, inadequate skills of private operators and time required to obtain spare parts, made management and functioning difficult. A 2005 case study for management of rural water supplies (done by the Department for Water Development (DWD)) found that for 80% of cases investigated, only one in three established Water User Committees were functional. This scenario threatens to reverse the achievement in functionality and makes the case for continued emphasis and investments in community driven water systems.

The sustainability of achievements in water and sanitation are jeopardised by the population dynamics and disparities. The steady rise in per capita cost, coupled with a fairly steady amount spent by the District Water and Sanitation Coordination Committee (DWSCG) over the last financial years and the high population growth in rural areas meant that expenditure was not able to keep pace with population growth. Over a four-year period, population growth outstripped the number of new people served in 23 out of 56 districts. In FY 2005/06 the DWSCG served an estimated 528,000 people but population growth was 825,000. If the grant does not increase significantly to match population growth rates, and per capita expenditure trends continue, the DWSCG will not be able to meet the national PEAP targets.

Due to disparities within the population, the above challenges are more pronounced in water stressed districts than others, and there are cases where district access to improved water supply was considerably lower than the rural average and still declining. For instance, in Kabong access is a mere 10% while in Kanungu it is well over 80%. Regional disparity in the number of small towns served with piped water supplies was evident. The Northern parts of Uganda were considerably worse off than the West. Focusing resources on the un-served towns in Northern Uganda had not yet been sufficiently prioritised. Rural-urban and regional variations presented further challenges to improving access to safe water especially in conflict-affected areas. As a consequence, the total DWSCG needs to be increased and the grant allocation mechanism between districts reviewed. Low technology water sources were reaching a saturation point requiring a shift to higher technology water supply options that may not fit within the MTEF ceilings.

### 7.5 Community Development

The PEAP key result area is to revitalise the community development function. The PEAP indicators of performance include "*the number of* Community Development Workers *(CDW) posts filled*" with a baseline of 742 against the target of 930 posts; number of graduate community development staff with a baseline of 102 with no established target; and functional community management committees. Implementation of the Social Development Sector[6] Strategic Investment Plan (SDIP) is key to executing activities towards achievements of *"inclusive and empowered communities"*. There are four areas of focus in the SDIP to realise the PEAP objectives notably community mobilisation and empowerment; social protection for people in difficult circumstances; promotion of employment and productivity (including good labour conditions) and mainstreaming of gender and rights.

Building *inclusive and empowered communities* is a broad, multifaceted and multi-sectoral effort in which government should be seen as an enabler, which identifies and 'pushes' critical drivers of change and lays down coordination policies and initiatives, which foster broad based and inclusive empowerment. The presence throughout the country of capable community development workers is important for the Government to play this role. As reported by the sector, a large number of unfilled CDW positions remain at the local level despite recent increases in the number of graduate community development workers that have been posted in the sub-counties (no number is available). Some activities have been undertaken in the area of functional adult literacy by adult trainers on a voluntary basis, which questions the sustainability. Preparation of policies in the field of social protection and gender are under development/adoption. However, moving the policies

[6] The Social Development Sector unlike its Pillar 5 counterparts, Health, Education and Water/Sanitation is a relatively new sector presently implementing its first Strategic Investment Plan (2003-2008). The Sector is also in the process of organising its first sector-wide GOU-Development partner joint review of progress and specific indicators and targets are still to be developed for some of the core areas.

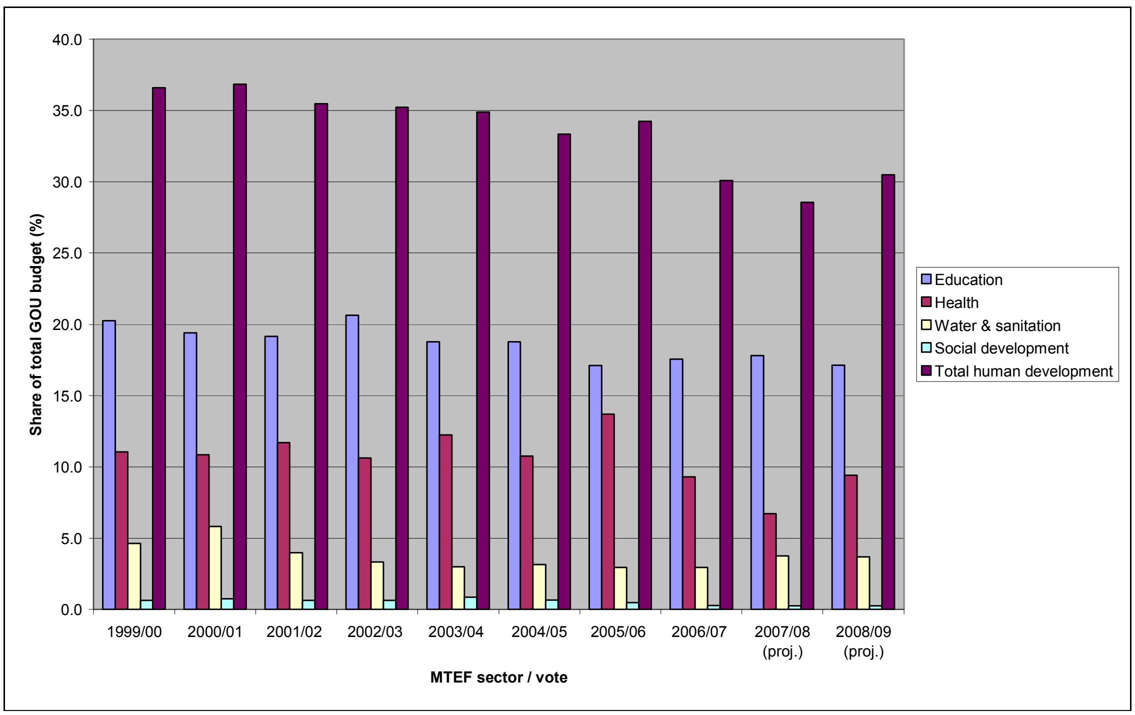
beyond paper initiatives is a challenge. Improvements in the use of sanitation facilities were marginal, as were the limited achievements in revitalising community mobilisation for healthy and sanitary behaviour.

The weak capacity of the Ministry of Gender, Labour and Social Development (MGLSD) to ensure that gender issues are mainstreamed into all aspects of the central and local government activities also challenges the value of the gender policies. An example of protection is the inspection at work places and health safety measures, for which funds are negligible. Resource allocation to the sector has been significantly below required sector investment. The limited grants to Local Governments (LG), CDW wage and non-wage, combined with the strain on LG own source revenues, and the costs of the recent LG restructuring process, etc. have led to a reduction of the number of CDWs within the LGs. Across the human development Pillar, poor resource allocation and the limited emphasis on enabling inclusiveness and empowerment influence achievements in education, the protection of vulnerable groups (including gender equality and civic rights issues) and the improvement of sanitation and functionality of water supply.

## 7.6 Budget Allocations

MTEF-based budget allocations to the human development sectors grew by 6.6% annually in nominal terms from UShs 957 billion in 2002/03 to UShs 1,236 billion in 2006/07. This corresponds to real annual growth of 2.1%. During the above period, average real growth for education was 2.0%, 2.7% for health and 3.1% for water & sanitation, i.e. below population growth. The share of the human development sectors of the total GOU budget dropped from 35.2% to 30.1% from 2002/03 to 2006/07 (Figure 7-1).

**Figure 7-1: Medium Term Expenditure Framework, incl. Donor Projects (Sectoral shares of total budget - %)**




Sources: MFPED.

While a recent analysis of GOU budget figures shows that MTEF-based budgets are not fully aligned with a budget breakdown according to PEAP objectives, they are a good approximation for the human development sectors. The analysis further shows that the total budget for the human development sectors was about 10% higher than indicated in the MTEF-based budgets in 2004/05 and 2005/06, and may possibly be up to 20% higher in 2006/07.

An increasing share of the budget resources for human development is protected against within-year cuts. Thus, the budget resources allocated to human development under the Poverty Action

Fund (PAF) are projected to account for 78% of total budget allocations to human development in 2006/07, up from 60% in 2005/06. The PAF allocations have generally favoured the human development sectors over other PEAP sectors by having provided 82-86% of the programme funds during 2003/04-2006/07.

The cost efficiency of service delivery in the public sector and the strategic options that would increase the efficiency and effectiveness in deployment and utilisation of human resources in the social sector within the fiscal ceilings imposed by the MTEF resource envelope, in the ministries or departments of Education, Health, Water, Agriculture and Community Development, were determined in 2003 (GOU/MPS, 2003). A long list of options is outlined, but it has not been possible to ascertain to what extent the options have been implemented, what possible gains in terms of increased cost-effectiveness and efficiency have been achieved and what potentials still remain. A recent study of the water & sanitation sector (GOU/MOWE, 2006) concludes that there are still cost-effectiveness potentials to be pursued in water supply throughout the country.

Meeting sector objectives entails higher future budget requirements. Addressing the main challenges of the education sector (high drop out rates and low level of proficiency), and the expansion of the UPE towards the USE to be introduced from 2007, will require huge resources. Health requires adequate financing for the Uganda National Minimum Health Care Package. Insufficient investment in health facilities result in inadequate access to health services. A major challenge for health investments is that a fairly large share of the resources is channelled through stand-alone donor projects, which are not directly contributing to the HSSP II priorities. Off-budget project funding raises issues of sustainability. It is not clear how much may be achieved in terms of increased efficiency in resource utilisation within the health sector. Budget allocations to health are projected to drop from Ushs 382 billion in 2006/07 to Ushs 289 billion in 2007/08, but increase again to Ushs 422 billion in 2008/09. In the water and sanitation sector there is a need to increase the share of the population with access to safe water both in rural and urban areas. It is likely that the existing PEAP and MDG targets will not be met if the current MTEF resource envelope is maintained.

All four sectors under the Pillar require large additional resources compared to existing levels. Weakening of the local governments' fiscal base strained the ability to organise, manage, monitor and supervise service delivery at the local levels. Since large additional funds are not budgeted for in the budget projections for the coming two financial years, prioritisation will have to be exercised within the sectors, across the Pillar and in relation to other Pillars. This prioritisation should reflect a targeting of the sectors, which are considered to make the most effective contribution to poverty eradication.

# 8 PEAP and the Budget

## 8.1 Overall trends

The total government budget, including donor projects, increased in nominal terms from Ushs 3,127 billion in 2003/04 (the year before PEAP start) to UShs 4,106 billion in 2006/07, corresponding to a nominal average growth of 9.5% per annum, or 6.6% in real terms based on the GoU deflator for public consumption. While these growth rates in the first PEAP years are higher than expected, the planned nominal growth of 4.5% - 4.7% annually during 2007/08-2008/09 are below PEAP projections.

A translation of the MTEF budget to one based on PEAP Pillars indicated an imbalance between growth in budget resources allocated to human development sectors and to productive sectors. Consequently, the Government stepped up budget allocations in relative terms for 2005/06 and 2006/07 to Pillar 2: *Enhancing Production, Competitiveness & Incomes* and halted growth in allocations to especially Pillar 5: *Human Development*. The Poverty Action Fund's (PAF) share of the GOU discretionary budget has increased consistently from 26.3% in 1999/2000, to 38.5% in 2004/05 (the first year of the PEAP) to nearly 40% in 2006/07. Contrary to the overall distribution of budget resources, PAF allocations have favoured the human development sectors, which have continuously received 83-86% of the Fund's resources, during the PEAP years 2004/05-2006/07. PAF allocations have been very consistent with the PEAP objectives that prioritise health, education, agricultural extension and research as well as district road maintenance.

Budget performance figures compare GOU budgetary spending with public budgetary allocations as expressed by the MTEF *excluding* donor project allocations. Budget performance in 2004/05-2005/06 was characterised by public administration and the JLOS having consistently overspent their budgets while other sectors were generally within budget. Budget implementation is affected negatively by a lack of budget discipline in the "more powerful ministries" that have been persistently overspending their budgets.

The budget estimates for 2006/07 of Ushs 4,106 billion is 1.3% higher than the resource envelope published in the Background to the Budget for 2006 but within the figure provided in the Budget Speech of 2006. The resource envelopes for 2007/08 and 2008/09 indicate a nominal annual growth in total resources available of 5.6% and 11.6% respectively. If these resources materialise, they will be sufficient to meet the projected budget expenditures for 2007/08 and 2008/09. Uganda is still very dependent on donor support to finance the budget and this is likely to remain the case in the short term. JBSO grant support dropped in the two financial years after 2004/05, primarily as a result of concerns among the development partners over excessive government expenditure on public administration. The donor contributions are generally in line with the main PEAP priorities of health, education, agriculture and roads.

The Pillar reviews conclude that the human development sectors cannot meet the existing PEAP and MDG targets within the current resource envelope. All four sectors under the Pillar require large additional resources to do so. Additional budget resources are also required for the roads and energy sectors, NAADS, NARS, and the conduct of an agricultural census. Government spending on agricultural credit should be limited to providing technical assistance. Funds used for extending credit through financial institutions could provide higher benefits if spent alternatively. There are indications that there is a need to improve the enabling environment for doing business, including the reduction of administrative barriers and the cost of entry.

For future planning and budgeting, targets should be established where they do not exist, target setting should be realistic and based on costing of plans, and prioritisation of resources as required by adjusting MTEF budget shares to ensure a balanced implementation of the PEAP is necessary. There is a need to develop a more explicit link between PEAP objectives and MTEF sector budgets. For the current PEAP (2004/05-2007/08), translation of the annual MTEF budget, including projections, into a PEAP-based budget and the use of this "shadow PEAP budget" for monitoring of PEAP implementation performance and resource requirements in the APIR process is necessary. Output-Oriented Budgeting (OOB) and Unit Cost Budgeting (UCB) should be fully institutionalised and consistently used for developing sector investment plans throughout Government. In the future, the existing MTEF sector structure needs to be revised to correspond better with PEAP objectives, assign policy objectives to the new sectors in the context of the planned new sector working group structure, and make sectors accountable for delivering results.

Improvement in budget efficiency should be pursued through conduct of and follow-up on sector reviews, Public Expenditure Reviews (PERs) and efficiency/value-for-money studies on a planned and consistent basis for the MTEF sectors or at PEAP Pillar level. Priority should be given to those sectors considered key to achievement of the principal PEAP objectives. Further development and use of a tool for comparing the performance of the PEAP Pillars/ KRAs in attaining the PEAP outcome targets (initially for 2007/08) should be considered, building on the sector findings from the APIR process.

## 8.2 Sectoral Budget Allocations

Achievement of outcome targets in KRAs depends on a number of factors over which the Government can exercise a large degree of control. Allocation of government resources and efficiency in their use are the key factors. Other aspects include appropriate Government policies and strategies to achieve outcomes, institutional performance, human resources management, macroeconomic and legal frameworks. It was indicated that the successful implementation of the 2004/05-2007/08 PEAP required a coherent strategy which could deliver improvements in the efficiency of public expenditure and ensure that expenditure allocations are focused on its priorities.

Government budgets are developed and presented in the form of the MTEF. At the end of 2006 MFPED made a first translation of MTEF budgets to PEAP-based budgets by dividing up the MTEF budgets according to PEAP Pillars and KRAs for 2004/05 - 2006/07. The PEAP shows how the shares of the MTEF/LTEF sectors are expected to evolve over the long term from 2003/04 to 2013/14. The PEAP had two budgetary goals: increasing nominal public expenditure by 3% in 2005/06 and about 7% per year from then on until 2009/10 based on an assumed annual inflation of about 4%; and increasing the budget shares of the strategic priority sectors: health, education, agricultural extension and research, and district road maintenance over the LTEF period 2003/04- 2013/14. This implied modest real growth during the early years of the LTEF period. It was strongly argued that infrastructural expenditure over the period of the LTEF should be phased so that most increases come in the second half, when resources were expected to be less scarce; that the scope for further control of the less directly poverty-reducing expenditures should be addressed; and that there was a need for continued analysis of the implications of these shares for real service delivery in each sector and reviewing them accordingly.

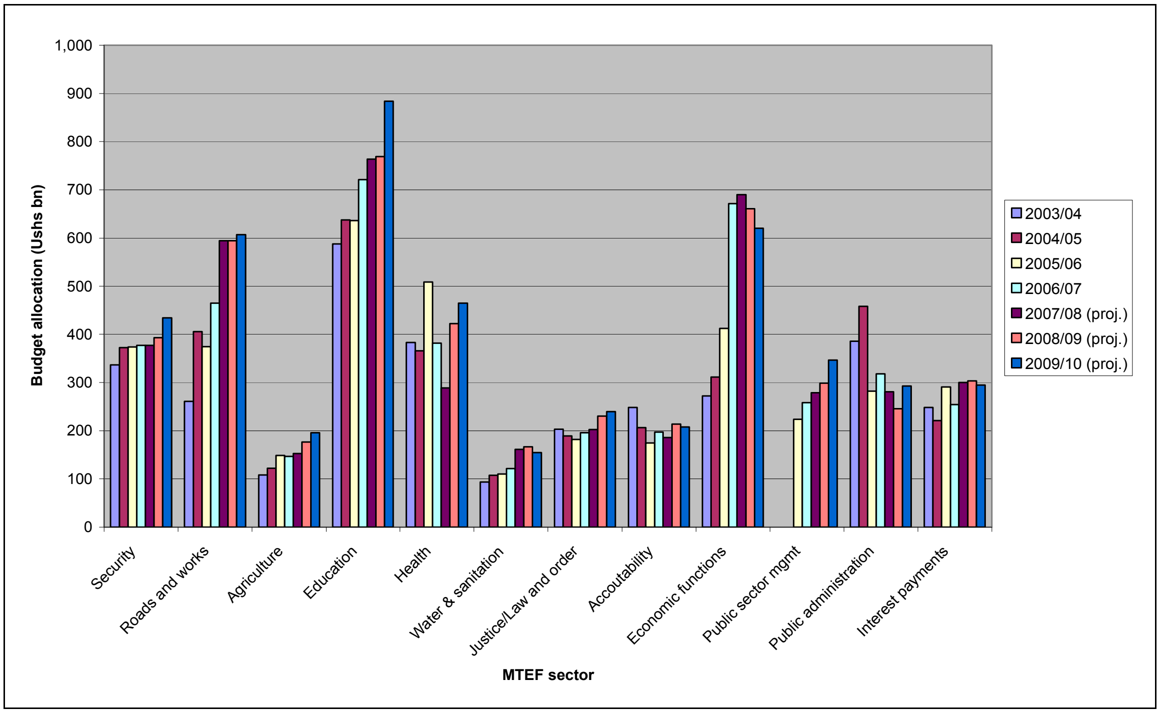
The PEAP identified a number of challenges facing the public sector with regard to efficiency and effectiveness of Government expenditure as well as an approach to funding PEAP priorities, how the sectors' shares of the Government budget are expected to develop, the role of the Poverty Action Fund (PAF), and how to strengthen budgeting at sector level. Some of the key challenges identified were: growth in public spending outstripping the implementation capacity in the public sector and budget implementation being damaged by a lack of budget discipline in some ministries. The capacity for budget planning and implementation remained weak in many sectors and unit costs of inputs and outputs were poorly scrutinised. There is need to improve targeting considering that poorer people generally benefit less from Government programmes than people who are better off.

### 8.2.1 MTEF budget allocations

The total Government budget, including donor projects, increased from Ushs 1,759 billion in 1999/2000 to UShs 4,106 billion in 2006/07 in nominal terms, i.e. an average growth of 12.9% per annum. This increase was supported by increasing donor support and rising domestic revenues. Real public expenditure grew by only 7.1% annually due to increases in the unit costs of public consumption and investment goods. Given a population growth rate of 3.2% during the same period, the increase in real public expenditure per capita were in the order of 3.6% per annum. Focusing on the period covered by the PEAP, total nominal government expenditures increased by 9.4% in 2005/06, 10.5% in 2006/07, and they are projected to increase by 4.5% in 2007/08, 4.7% in 2008/09 and 6.8% in 2009/10.

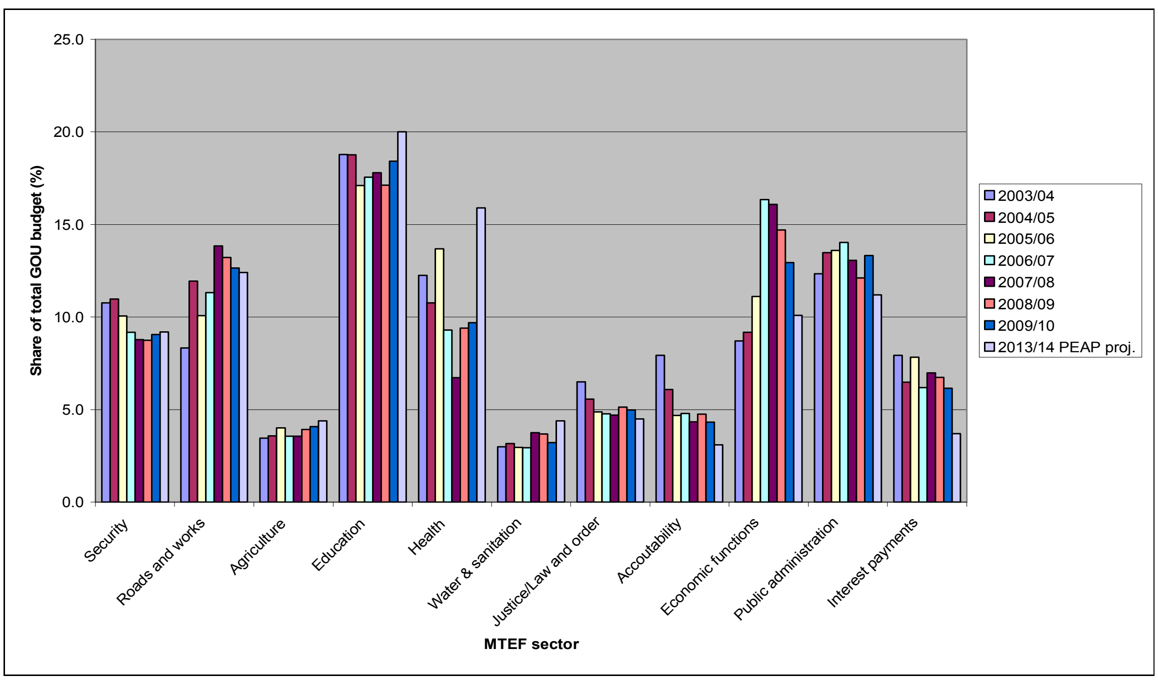
The drop in real government expenditures to close to zero for 2007/08 and 2008/09 is in line with the Government's wish to reduce the dependence on donor aid. Compared to the PEAP goals, nominal growth in public expenditure was higher than planned in 2005/06-2006/07 of the PEAP period followed by lower than planned growth during 2008/09-2009/10. The sectoral shares are depicted in Figures 8-1 and 8-2.

**Figure 8-1: Sectoral MTEF Budget Allocations incl. Donor Projects (Ushs billion, current prices)**




Source: MFPED: data base, *National Budget Framework Paper for Financial Years 2006/07-2008/09,* and *Budget Call Circular* of 5.12.2006..

**Figure 8-2: Sectoral shares (%) of total MTEF budget Allocations incl. Donor Projects**




*Source: Same as Figure 8.1.*

*Health* budgets grew in real terms by 4.5% during 1999/00-2006/07 having suffered a dramatic reduction in 2006/07 compared to 2005/06. The sector's share of Government resources dropped from 12.2% in the baseline year 2003/04 to 9.3% in 2006/07 and a further decline to 6.7% is expected in 2007/08 followed by an increase to past levels of 9.4% in 2008/09. This is still far from the PEAP projection for 2013/14 of 15.9%. *Education* budgets increased by 4.9% in real terms during the period 1999/00-2006/07, with average growth rates from 2004/05-2006/07 having dropped to about 3.4%. Education's share of the total budget has remained relatively constant over the years but its share has fallen during the PEAP years compared to the baseline figure from 2003/04 of 18.8%. The share of 17.1 - 17.6% for the period 2006/07-2008/09 lags behind the PEAP projection for 2013/14 of 20%. The *water & sanitation* sector experienced real growth in expenditure of about 6.1% annually from 2003/04 to 2006/07 but still accounts for less than 4% of the total budget.

The budget allocations to a*griculture* which is critical for poverty reduction and rural development, providing the livelihood for about 86% of the population and employment to about 77% of the labour force in rural areas, have remained at a low level throughout the period 1999/2000 to 2006/07 accounting consistently for 3.5-5.0% of the total budget. Real budget allocations in 2005/06 and 2006/07 were still below the level prevailing at the beginning of the decade. *Tourism, trade and industry*, other areas contributing considerably to the economy (with micro, small, and medium scale enterprises accounting for about 12% of employment in rural and 40% in urban areas) receive a limited share of the budget, accounting for only 0.9% of the total budget in 2006/07, down from 1.7% in 1999/2000. The *roads and works* sector has accounted for between 11.9% and 11.3% of total budget resources between 2004/05 and 2006/07, and is expected to increase to over 13% in 2007/08-2008/09. On the contrary, the share of the priority area *district road maintenance* has diminished consistently from 0.57% in 2003/04 to less than 0.45% in 2008/09.

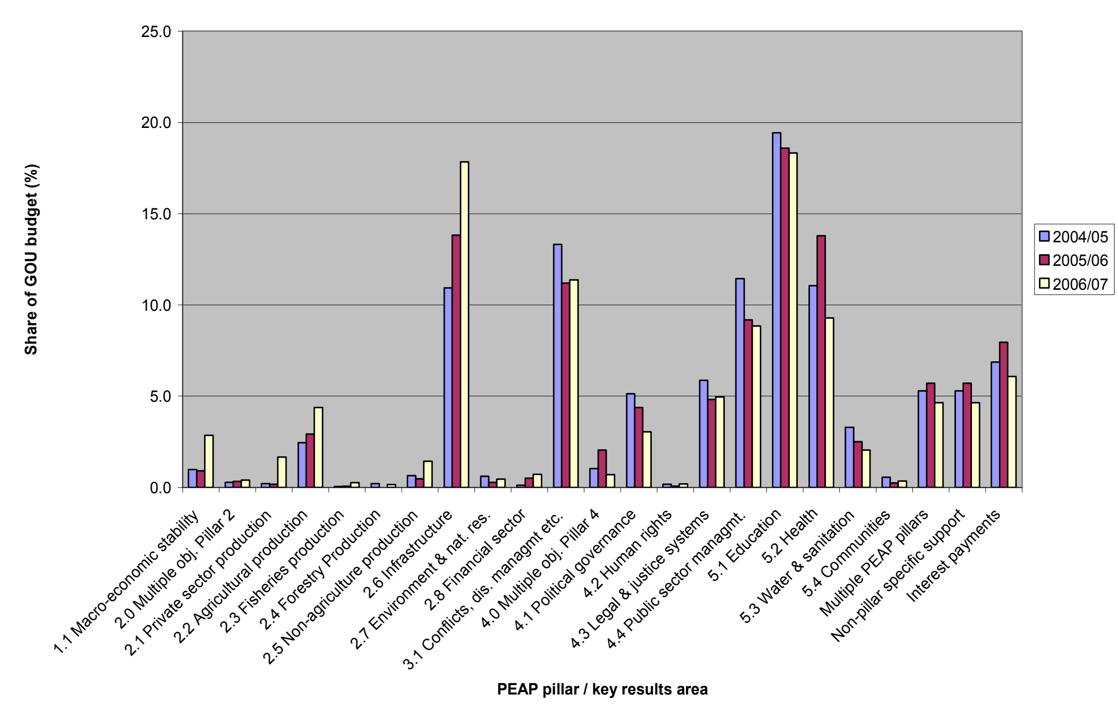
Figure 8.2 also shows the share of the Government budget in 2013/14 that each sector is projected to account for according to the PEAP. There is a noticeable reduction in the budget shares of the human development sectors in favour of interest payments, economic functions, public administration accountability and JLOS. Health is projected to be allocated 9.7% of budget in 2009/10 compared to the PEAP target of 15.9% in 2013/14, interest payments to account for 6.1% compared to the PEAP target of 3.7% (reflecting higher borrowing than expected), economic functions to take up 12.9% compared to a target of 10.1% and public administration/public sector management to account for 13.3% compared to a target of 11.2%.

### 8.2.2 Budget allocations to PEAP Pillars

Figure 8-3 shows the distribution of GOU budget resources according to Key Results Areas (KRA) for Pillars 1-5. In a number of cases there are discrepancies between budgets based on PEAP Pillars/KRAs and on MTEF sectors. For example, the PEAP budget for agriculture is higher than the one for the MTEF agriculture sector as it includes elements of the MTEF vote 112 that deals with land policies and implementation.

Given a perceived imbalance between growth in budget resources allocated to the human development sectors and those to productive sectors, the Government has in recent years increased budget allocations in relative terms to Pillar 2: *Enhancing Production, Competitiveness & Incomes*. Its share increased significantly from 15.6% in 2004/05 to 27.3% in 2006/07. This has been at the expense of especially Pillar 5: *Human Development* whose share has started to diminish. Furthermore, the share of Pillar 4: *Good Governance* of total budget resources has gone down from 23.7% in 2004/05 to 17.8% in 2006/07. The main areas within Pillar 2 that have benefited are energy and roads & works. At a significantly lower scale the NAADS, support to MSMEs, tourism, and microfinance have also enjoyed increased resource allocations.

**Figure 8-3: GOU Budgets by PEAP Pillars and KRAs for 2004/06 - 2006/07 (shares of Total Budget - %)**




*Source: MFPED/ODI (2006): Uganda DP Division of Labour Exercise Interim Report. Budget tables. First Draft.*

## 8.3 Poverty Action Fund

The Poverty Action Fund (PAF) was created in 1997 to safeguard expenditures towards activities considered to contribute directly to poverty reduction. It is a "virtual fund" given that PAF resources are an integral part of the general GOU budget resources. Allocations to PAF programmes are integrated within the MTEF but a separate PAF budget is presented in the budget documentation. PAF budget allocations are protected from within-year budget cuts diverted to other components of the GOU budget. Programme resources under the PAF almost tripled during the period 1999/2000 to 2005/06 in nominal terms and more than doubled in real terms. The PAF's share of the GOU discretionary budget[7] has increased consistently since its creation from 26.3% in 1999/2000, 38.5% in 2004/05 – the first year of the PEAP – to nearly 40% in 2006/07.

Contrary to the overall distribution of budget resources, PAF allocations have favoured the human development sectors, which have continuously received 83-86% of the Fund's resources, including during the PEAP years 2004/05-2006/07. The bulk has gone to education and health. Contributions towards the PEAP KRA of enhancing production, competitiveness and incomes have accounted for 11-14% of total PAF expenditures over the period concerned. These resources have mainly been used for rural roads maintenance and development and agricultural advisory services. The conclusion is that the PAF allocations have been very consistent with the PEAP objectives that prioritise health, education, agricultural extension and research as well as district road maintenance.

## 8.4 Budget Performance

Budget performance figures compare GOU budgetary spending with public budgetary allocations as expressed by the MTEF, *excluding* donor project allocations. Budget performance from 2001/02 to 2005/06 has been characterised by public administration and the JLOS constantly over performing (overspending) with other sectors generally within budget. Budget implementation is affected

[7] The GOU discretionary budget is defined as total MTEF GOU expenditures excluding donor project aid and interest payments.

negatively by lack of budget discipline in the "more powerful ministries" that have been persistently overspending their budgets. Supplementary expenditures are typically funded by making cuts in other areas of expenditure. With the exception of health, the priority sectors of the PEAP have suffered most. In 2002/03 the supplementary expenditures amounted to UShs 91 billion but in 2005/06 they had increased to Ushs 238.5 billion, equivalent to 6.4% of the total GOU budget.

### 8.5 Resource Envelope for 2006/07 - 2008/09

The resources available for public expenditure include domestic tax revenue, non-tax revenue and donor grants and loans less funds required for debt servicing and for monetary policy and foreign exchange objectives. The total approved budget estimates including donor projects for 2006/07 amount to Ushs 4,106 billion, a nominal increase in expenditures over 2005/06 of 10.5% and about 7.6% in real terms. The budget estimate of Ushs 4,106 billion is 1.3% higher than the resource envelope published in the BTTB/2006 but within the figure provided in the Budget Speech/2006.

Despite efforts to reduce dependency on international aid and to increase resource mobilisation of domestic revenue, Uganda is still very dependent on donor support to finance the budget and this is likely to remain the case in the short term. In 2006/07 donor support will make up 42% of the resource inflows (up from 40% in 2005/06) and 45% of budget expenditure. In the longer run, donor dependence should be reduced by increasing domestic revenue through GDP growth and sound management of public expenditure. Low domestic revenue in 2005/06 was caused by shortfalls in both tax revenue and non-tax revenue collections from line ministries and other governmental departments.

The resource envelope for 2007/08 and 2008/09 projects a nominal annual growth in total resources available of 5.6% and 11.6% respectively. If these resources materialise, they will be sufficient to meet the projected budget expenditures for 2007/08 and 2008/09. This does not necessarily mean that these budget allocations would be sufficient to support the sectors adequately in meeting their outcome targets. According to the envelope, loans and grants are projected to account for 42%, 37% and 29% of total resources available over the period 2006/07-2008/09. However, the application of discount factors by MFPED implies conservative estimation of donor budget and project support.

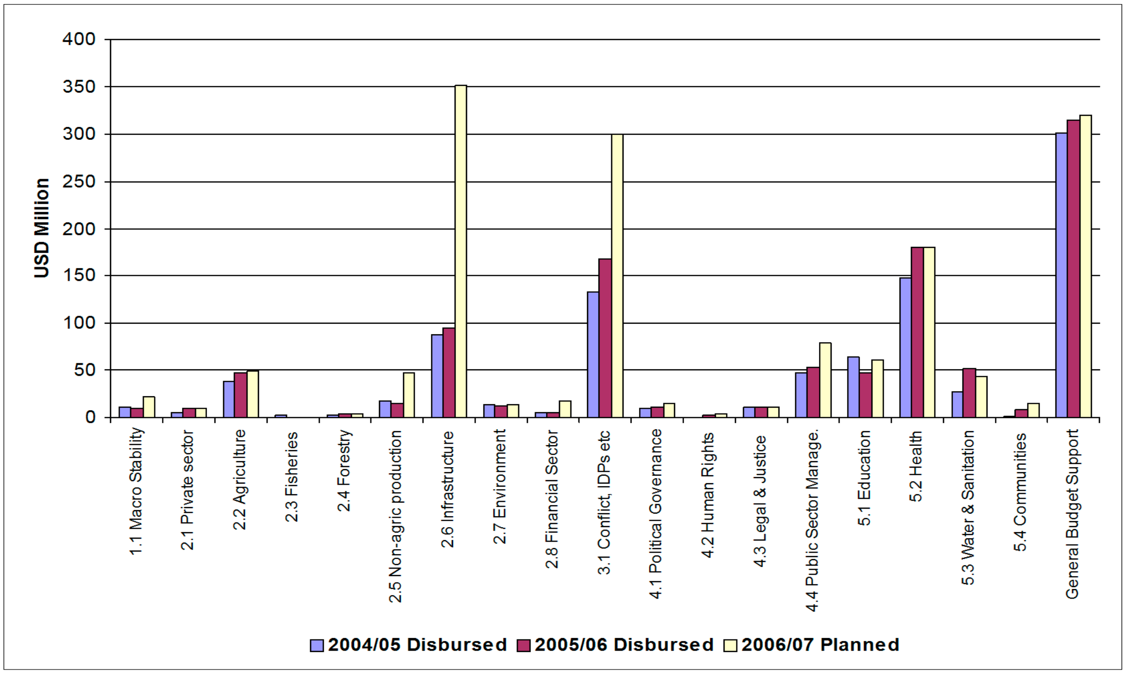
### 8.6 Development Partner Support

Donor contributions in the form of JBSO grant support dropped in the two financial years after 2004/05, primarily as a result of concerns among the development partners over excessive government expenditure on public administration. Despite the reduction in JBSO from 2004/05 to 2005/06 the Government was able to maintain its expenditure budgets in 2005/06 owing to its practice of discounting aid projections. Meanwhile, JBSO concessional loans have increased, leaving a higher projected total JBSO in 2006/07 than in previous years.

The development partners' contributions to PEAP Pillars and KRAs are shown in Figure 8-4. Most contributions go to humanitarian aid reflecting the changing situation in the north (PEAP Objective 3.1), health, infrastructure (roads and increasingly energy), public sector management, education, agriculture and water & sanitation. This is generally in line with the main PEAP priorities of health, education, agriculture (extension and research), and roads (district road maintenance).

A recent analysis (GOU/ODI, 2006) shows that the amounts of donor aid reflected in the MTEF budgets are below the actual donor contributions. MTEF figures on donor *project* support published by the Government may capture less than two thirds of actual donor support. The analysis found that the total budgets, including donor projects, was about 11% higher than indicated by the MTEF-based budgets in 2004/05 and 2005/06, and may possibly be up to 22% higher in 2006/07. The reasons indicated, e.g. for 2006/07, are that MFPED applies a discount factor to JBSO aid, which accounts for most of the difference. However, some of the aid reported to GOU by the development partners is not included in the MTEF budgets and budget estimates because it is not provided to Government institutions and therefore makes up a part of the donor contributions considered off-budget. In 2006/07, the resources available to Pillars 3 and 5 are particularly higher than indicated by the MTEF budgets. This is explained by higher humanitarian aid and donor support to the human development sectors (70% and 20% respectively), than captured in the MTEF budgets. For human development, this is a valuable contribution to narrowing the shortfall of resources required to meet targets.

**Figure 8-4: Donor Aid Disbursement by PEAP Objective and GBS (US$ million)**




*Source: Government of Uganda/ODI (2006): Uganda DP Division of Labour Exercise Interim Report. First Draft. MFPED, Kampala.*

## 8.7 Harmonising PEAP Objectives and Budget Allocations

The adequacy of government resources to support the sectors in achieving the PEAP targets is dealt with in the Pillar chapters. Generally, the human development sectors cannot meet the existing PEAP and MDG targets with the current MTEF resource envelope. All four sectors under the Pillar require large additional resources compared to existing levels. Additional budget resources are also required for the roads sector, programmes and MDAs supporting the agricultural sectors, aspects of providing an enabling environment for private sector development, and energy. The challenges for future planning and budgeting are to establish targets where they do not exist, to be more realistic in target setting, and to revise prioritisation of resources as required by adjusting MTEF budget shares to ensure a balanced implementation of the PEAP. Further reassessment of the distribution of budget resources with a view to maximising outcomes and impact will have to be integrated into public sector reviews and addressed by PERs, efficiency studies, public financial management assessments, and the budget process in general.

### 8.7.1 Public sector and expenditure reviews

Public sector reviews are primarily undertaken through SWGs, e.g. in the education, health, water and JLOS sectors. Each May, a public expenditure review workshop is organised with the participation of all line ministries, Parliament, civil society and development partners. The expenditure review working group of the development partners has established a forum with the Government to review and monitor the budget process. Development partners support the budget framework through technical public expenditure reviews (PERs) conducted jointly by the Government and the development partners. A World Bank supported PER in 2006/07 will address fiscal sustainability in Uganda in view of a growing pressure on the budget, a need to increase spending on infrastructure, limitations in Government revenue generation and the high dependence on donor support. The PER should look at efficiency issues, including an efficiency study on education and a planned study on sources and uses of funds in the health sector. It is further expected to include a value-for-money study of the roads sector. Efficiency and/or value-for-money studies are important tools for evaluating the efficiency of Government expenditure. Generally, there is a lack of such studies to support the budget process. There is a need to plan and undertake PERs/efficiency studies consistently for all MTEF sectors or at PEAP Pillar level, possibly on a rotation basis.

### 8.7.2 Linking MTEF budgets with the PEAP

Although the link between the PEAP and resource allocations has been strengthened (through the preparation of Budget Framework Papers (BFPs) to fit under MTEF ceilings, MTEF budgets based on strategies as well as LTEFs), the structure of the PEAP and MTEF budgets are still misaligned. The MTEF is based on sectors and votes while the PEAP is organised by Pillars and KRAs. Initiatives are being taken to redress this situation. At the APIR workshop in February 2007 it was proposed to do it in four steps: (1) structure the MTEF and budget by sectors and KRAs (i.e. policy objectives) and make the sectors accountable for delivering results, (2) revise the sector structure to be more policy relevant – e.g. by dividing up "Economic Functions and Social Services" into energy, private sector development etc, (3) structure the policy matrix by sector and objectives – not by Pillar and KRA – and improve accountability, and (4) structure future PEAPs according to the new sector structure..

The underlying idea is to develop a series of policy objectives for each MTEF sector that links up with corresponding PEAP objectives and make this the basis for the concerned SWG to prepare its SWG report and BFP. In this way use can be made of the existing MTEF framework and the established SWG structure and processes, at the same time relating the process indirectly to the PEAP objectives. It is important to compare the performance of the PEAP Pillars and KRAs in achieving the PEAP outcome targets, mainly by assessing to what extent budget allocations for the concerned areas are sufficient to allow them to reach their PEAP targets.

### 8.7.3 Budgeting

Output-Oriented Budgeting (OOB) was introduced in 1997/98 with the purpose of establishing sector objectives, outputs, activities required to deliver public services, and associated costs. The main achievement of OOB so far is at the sectoral level where performance indicators have been developed and quantified to measure the attainment of policy objectives and targets. Strict use of the OOB principles in the annual budget process has not progressed much and is only practiced by few MDAs. Unit Cost Budgeting (UCB) is a key element in the preparation of sector BFPs and sector MTEFs. MFPED has taken the first steps in introducing unit cost budgeting to non-wage recurrent and development budgets of all ministries and agencies with a view to increasing transparency and efficiency in public resource use through improved resource allocation and public expenditure management. There is a need to institutionalise OOB and UCB in sector planning and budgeting in all MDAs.

# 9 Monitoring and Evaluation

## 9.1 M&E Logic of the PEAP

Since its inception in 1996/7, the PEAP through its three revisions has been Uganda's national policy framework. The Government budget, sector investment programmes, the inputs of development partners (particularly under UJAS), and some of the work of civil society is intended to be under guidance of the "action plan". In its current revision, the PEAP does include a results matrix of specific actions, targets and benchmarks, for use in tracking implementation and outcomes. The current revision of the PEAP runs until 2007/2008. At present, it is unclear whether the PEAP will be revised according to this timetable, which process any revision would follow, and how the PEAP relates to a range of new policy initiatives that have commenced in the follow up to the election of early 2006. There is a need to update the Government policy calendar in order to bring it into line with the political cycle, if the PEAP is to retain its centrality to the budget process and sector plans. Such a change would also have implications for development partner support.

The objective of Monitoring and Evaluation (M&E) is to enable Government to make decisions that will keep the implementation of the PEAP on track. The PEAP M&E framework is built around the PEAP Results and Policy Matrix, which is organised as a hierarchy of Key Result Areas for each PEAP Pillar (Figure 9-1). Policy actions organised around the five PEAP Pillars have been identified for each of the four fiscal years spanned by the PEAP.

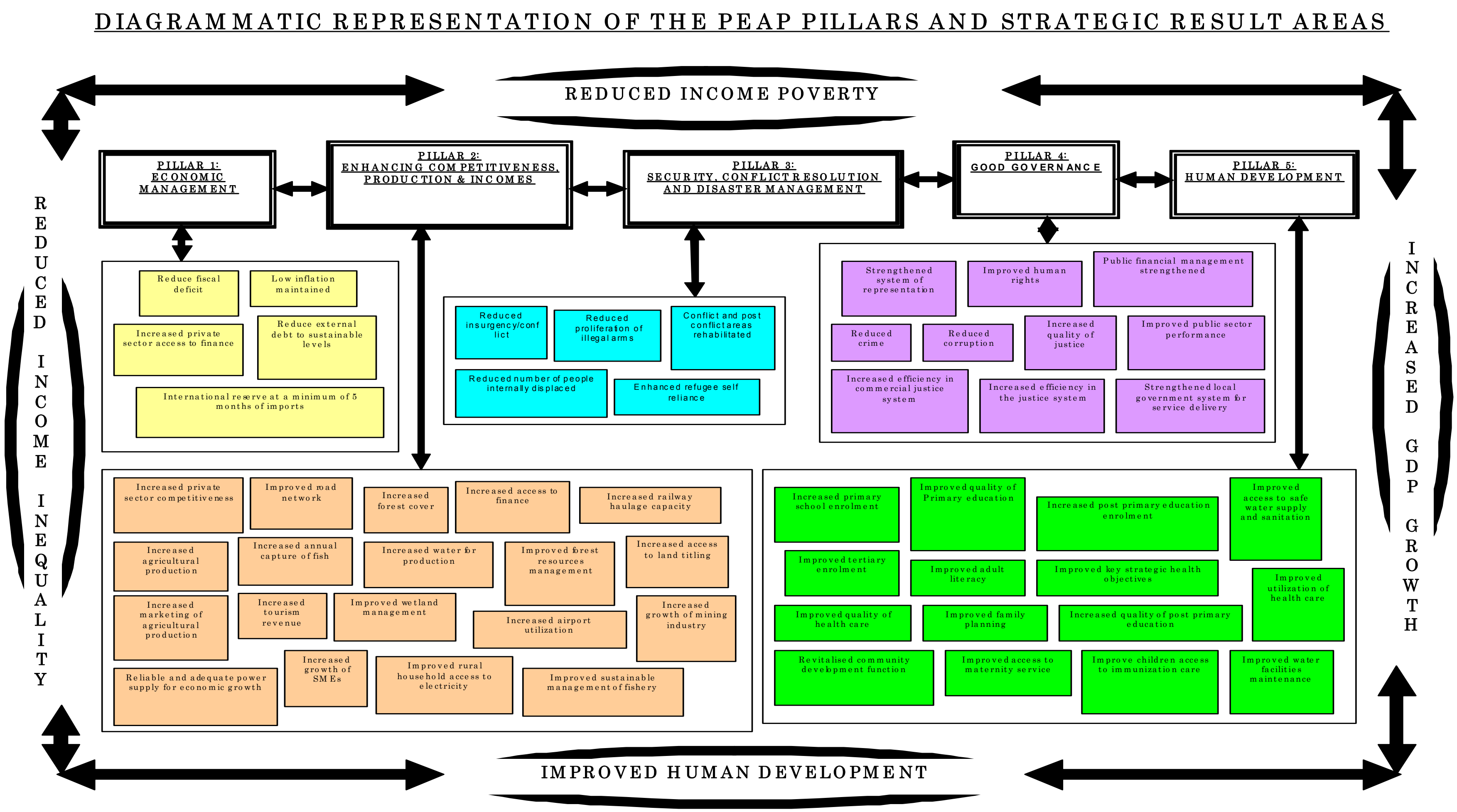
The PEAP logic of change as represented in the diagram implies that a set of policy actions can positively influence an outcome. In turn, improvement in a given set of outcomes characterises attainment of a given strategic objective. Cutting across individual PEAP Pillars and associated outcomes under each Pillar is the expectation of improvement pertaining to a set of *Key Results Areas*, reflecting income poverty, inequality, human development and GDP growth. For each of the Key Results Areas and Outcomes one or more indicators have been identified and targets established, the monitoring of which reveal the rate of progress.

To ensure broad based appreciation and ownership of the PEAP Key Results Areas requires building a foundation for a strong M&E capacity and developing a culture of evidence based decision making. Table 9-1 summarises the M&E challenges and the attendant expected results. The APIR is the mechanism for reviewing implementation and outcomes, and the first of these was held early in 2007. It pulls together and analyses results at sector level and puts these into a consolidated and crosscutting analysis of trends towards achievement of overall strategic objectives of the whole PEAP.

**Table 9-1: M&E Performance Challenges and Expected Results**

| Strategic Objective | Identified Challenges | Expected Results of Performance |
|---|---|---|
| To strengthen evidence based decision making in Uganda's public sector management system | Weak M&E Coordination Arrangements | Strengthened M&E Coordination |
| | Limited Flow of Relevant Information | Enhance flow of information to decision makers |
| | Inadequate Performance-based Public Management Culture | Enhanced Performance-based Public Management |
| | Gaps in information and underused information | Framework for Managing Data Gaps |

**Figure 9-1: PEAP Pillars and Key Result Areas**



### 9.1.1 M&E coordination

In FY 2005/6 National Integrated M&E System (NIMES) was implemented focusing on three main development areas: a) enhancing the policy environment for M&E usage, b) strengthening M&E skills throughout the Government, and c) developing the physical infrastructure necessary to support the demands for M&E information. The choice of the development areas was in recognition that capacity is not merely a question of technical skills. The development areas encompass current constraints to effective M&E usage in Uganda as well as the strategies required to meet expected results. The NIMES framework was introduced to all stakeholders in National and Local Government, and to Civil Society Organisations. Through this process, different stakeholders came to understand their roles as well as agree on comprehensive milestones that different parts of Government have to achieve in the development and use of M&E for decision making.

Government worked under a PEAP Pillar coordination framework, breaking down the policy actions that are contained in the PEAP Results and Policy Matrix into annual policy benchmarks. The annual policy benchmarks were harmonised and aligned with sector strategies, thus ensuring that the PEAP is well aligned with sectors' implementation strategies. The results of this exercise led to the PEAP Annual Policy Actions Matrix and implementation of the Annual PEAP Implementation Review Process (APIR).

The APIR objective is to ensure the effective communication of PEAP results to decision makers. This will increase broad based appreciation and ownership of PEAP Results within the executive branch of Government, legislators, private sector, civil society and development partners. The APIR therefore constitutes an inclusive process culminating in an APIR event. The APIR Event examines the extent to which sectors underlying each Pillar have moved towards the achievement of the overall objectives of the PEAP and identifies future actions to address challenges. The APIR provides the building blocks for the adjustments of indicators in the PEAP Results and Policy Matrix.

The initial APIR was held in 2006/07. A key milestone in the implementation of the APIR was the commencement of the National M&E WG technical meetings. These meetings brought together relevant technical persons from Government, development partners and CSOs to review the APIR process outputs and make technical suggestions. Consultative workshops for Central Government officials, Local Governments, CSOs and other stakeholders were held, giving a chance to the stakeholders to understand the APIR process and give feedback on both the challenges and possible ways of strengthening the process. A Pillar Review Process was established and reported on the progress of achieving specific key result areas and proxy indicators. The reports from each of the Pillars highlighted both the indicator progress and the performance assessment in achieving the PEAP key result areas. These were compiled into the APIR report which was shared with all stakeholders. Comments received were used to strengthen the analysis of the APIR Report in preparation of an APIR Event. This was a high level dialogue where the APIR report was discussed. The report was then presented to Cabinet and Parliament by the Prime Minister before its launch.. The APIR is planned to create an understanding and proactive management of the PEAP throughout the outcomes realisation process. Furthermore, the APIR process and event contributed to the establishment of a system and procedures for coherent data collection, reporting and use of information to shape the future activities and policy decisions.

In FY2005/6 Government requested development partners to adopt a single M&E instrument and consider relinquishing existing matrices such as the PRSC Policy Matrix, the Good Governance matrix or other donor matrices that have been used previously to assess performance. The argument was that it is important to measure Government performance using similar yardsticks. The remaining challenge is to develop the PEAP annual framework that represents a single, coherent Development Policy Management Instrument that can guide policy analysis, budget prioritisation, work planning, performance assessment and donor dialogue.

PEAP Volume 3 put forward a set of *Partnership Principles* between the Government of Uganda and its Development Partners. In 2005 the Government and most of Uganda's major development partners agreed to the Uganda Joint Assistance Strategy that sets out clear outcomes and aid effectiveness targets to be achieved by the end of the current PEAP period (2008/09). One of the key targets of the UJAS was the achievement of a better division of labour among development partners based on their comparative advantages. The Division of Labour (DoL) exercise is built on the aid effectiveness debates of the 1990s. These debates produced the Rome and Paris Declarations on Aid Effectiveness and Harmonisation (2003 and 2005). This DoL exercise is also an attempt to put MDG 8 (*Global Partnerships*) into practice. The DoL exercise is also part of a process that began in the 1990s with the Government's establishment of joint sector working groups, as well as the development of sector wide approaches (SWAps) and the NIMES. This DoL has been characterised by; pooled funding mechanisms, joint missions, joint sector reviews, and joint analytical work and advisory services by development partners. The partnership principles were therefore made to guide the dialogue with external partners.

#### 9.1.2 Flow of information to decision makers

The Plan for National Statistical Development (PNSD) was developed to support national statistical priorities in the light of the PEAP outcome indicators in the Results and Policy Matrix. It is also a part of the National Statistical System (NSS) for monitoring and evaluation which puts emphasis on the quality of survey and administrative data for M&E. The PNSD is therefore a framework for strengthening statistical capacity across the entire NSS for results-based management. It covers 5–10 year plans presenting priorities for statistics and building capacity needed to meet the priorities in a more coordinated, synergistic and efficient manner. The PNSD is intended to galvanise all data producers to pool together towards a common vision and mission for statistical production.

A number of CSOs established M&E systems (e.g. Community Monitoring by the Uganda Debt Network, Community Development Resource Network under the NGO Forum) for provision of information on the performance of Government especially in the delivery of public services. They are actively involved in monitoring performance in the health and education sectors, on governance and the provision of agricultural extension services. However, most of this information is not fully channelled into mainstream Government for use in policy decision making. There is need for a formal and systematic means of integrating monitoring activities of Government and CSOs. The APIR offers an opportunity to build on these initiatives by ensuring that information from both state and non-state actors is included in assessing the performance of Government. Initial work has been started under the current review process by holding planning meetings with CSO representatives and a workshop to work out the modalities of CSO engagement in the APIR process.

It is planned that M&E arrangements under the PEAP review process should be linked directly to different decision-making processes within Government, in particular the *planning, budgeting* and the *sector coordination mechanisms*. The APIR review plans to utilise the *budget progress reviews* (use the information on the outturns from the previous financial year) and gradually link the review of activities, outputs, outcomes and impact with the inputs (budgeting side). For the current review, this has been achieved through the inclusion of an analytical chapter that links the national budget to the Key Results Areas in the PEAP Results and Policy Matrix. In this sense, the PEAP review cycle facilitates a better linkage between the PEAP and Output Oriented Budgeting (OOB). The process under development will inform the national budget backwards and forwards and the timing of the PEAP annual review will be coordinated to maximise the use of budget progress information and ensure that it is informative for the finalisation of the MTEF Budget Framework Papers and Annual National Budget.

Government has also put in place several financial management reforms. The IFMS is one such reform and is focused on computerisation of the budgeting and accounting functions of Government. The IFMS has been implemented in a phased manner. The system was piloted in 6 Ministries (Agriculture, Works, Lands, Education, Health and Finance) and 5 Local Governments (Bushenyi, Lira, Jinja, KCC- City Hall and KCC – Central Division). Along the way, several milestones have been attained. There is now better Public Expenditure Management, under the IFMS, and documents like Local Purchase Orders (LPOs) can only be issued when there is a sufficient funding for such expenditures and payments are only possible if there are sufficient releases. There is also better integration of information as managers simply query the IFMS database for information ranging from cash balances to statements of financial performance within a matter of minutes and this enhances efficiency in decision-making.

Government has placed emphasis on the development of a Community Information System (CIS) as part of the Rural Development Strategy (RDS). The CIS is one of the ways in which monitoring investments at the community level will be enhanced. This is done through the establishment of a well organised CIS to regularly report on the human population that exists in a given location and their characteristics, their economic status, the income of their households and the overall welfare of the communities in which they live. The CIS contributes to the objectives of RDS which include; increasing farm productivity and household outputs, adding value to production and ensuring a stable market for selected agricultural products. The CIS aims to regularly collect basic information from all communities to help monitor household welfare. The CIS will have baseline information on all parishes in Uganda. This process is central to the APIR process because it generates community level performance data that is critical in understanding how different service delivery institutions are achieving results at community level.

#### 9.1.3 Performance-based public management

During 2006, Government made considerable progress in operationalisation of the Public Sector Management Sector Working Group (PSM-WG). The PSM-WG provides the means to enhance policy dialogue on issues related to overall performance, structure, M&E and sector management as well on specific sector issues, such as National Planning, Public Service Reform and Decentralisation and foster linkages to other ongoing reforms. Common overall objectives and principles for optimisation of collaboration and coordination of the WG have been defined. The WG will provide guidance and strategic advice on how best to address and alert higher levels of policy making of challenges and issues emerging from the PSM area.

The process of developing a Multi-sector Local Government Performance Review Mechanism is progressing. Over the years, reporting and M&E on district level has been strongly influenced by reporting requests from the national level and from donor-funded projects. Innovations like the Local Government Development Programme have been instituted as both development fund disbursement mechanisms and policy compliance mechanisms. The process will lead to the development of a robust system of assessment that will allow for the local government level review system to feed directly in the upper level system based on enhanced district level M&E capacity. The eventual system should be able to allow for CSO participation and analytical work that involves communities using methodologies like citizen report cards and beneficiary assessments. A regionalised multi-sector performance review mechanism that is based on the principles of adaptive learning will be used to ensure that there is mutual sharing and exchange of skills among local governments. A study that clearly articulates the different aspects of M&E at the Local Government level will be launched and the results used in the development and further elaboration of this area of activity.

#### 9.1.4 Managing data gaps

The profile of outcome indicators has been done for all the PEAP indicators. This is in accordance with each strategic objective and PEAP Pillar. The exercise focused on the precision in indicator definitions, indicator baseline information and targets, sources of data on indicators, frequency of data collection and reporting. The profile shows that while some indicators are precisely defined and are measurable, others are not precisely defined and therefore alternative indicators are proposed as second generation indicators.

### 9.2 PEAP Performance Evaluation Model

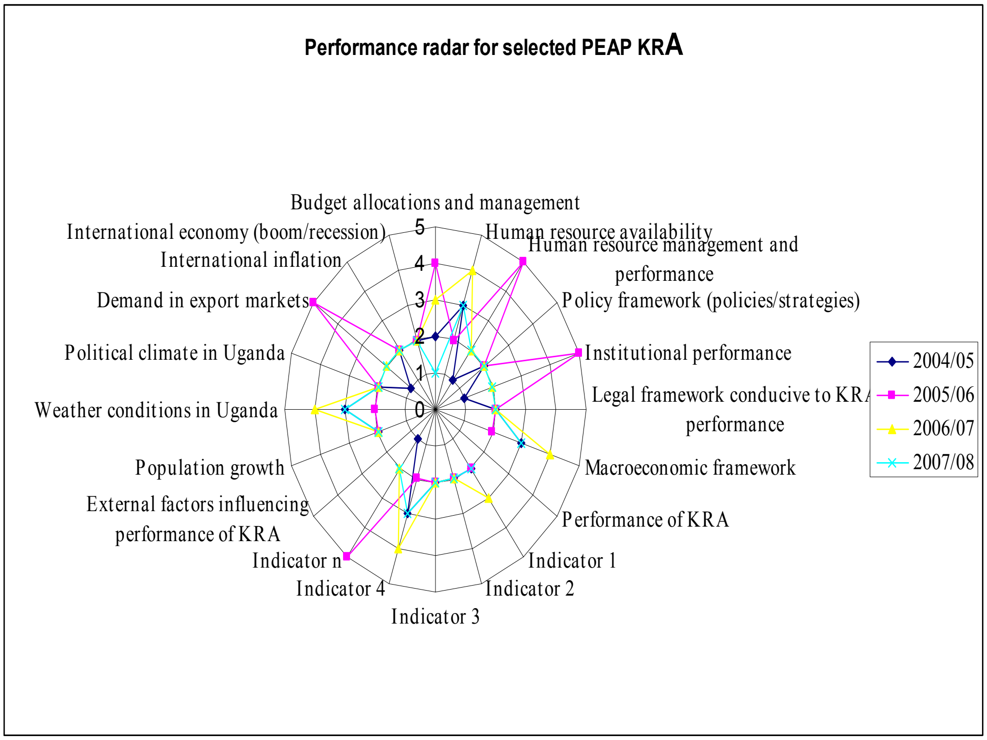
The government has the intention to develop a performance evaluation model for the future review processes. The introduction of a model will be dependent on the revision of the PEAP Policy and Results Matrix and the revision of the indicators which have been found to be problematic. The evaluation model is based on setting performance targets (Table 9-2) for a key result area (KRA) and to develop an index based on ranks of the internal and external factors, and the performance of the proxy indicators in reaching a specified target, all along a scale of 5 points (1=poor, 2=fair, 3=good, 4=very good, 5=excellent). The mapping of this scale onto a radar screen (Figure 9-2) provides a single measure of government performance along a single scale.

**Table 9-2: Ranking Table for Constructing KRA Performance Index**

| Area of Ranking | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|
| Proxy Indicator (e.g KRA Reduced Fiscal Deficit) | | | | |
| Fiscal deficit (as % of GDP) | 11.3 | | | 8.2 |
| Revenues as % of GDP | 12.6 | | | 13.2 |
| Expenditures as % of GDP | 23.9 | | | 21.8 |
| Performance scale[8] of internal factors influencing performance of KRA | | | | |
| Budget allocations and management | 2 | 2 | 2 | 2 |
| Human resource availability | 2 | 2 | 2 | 2 |
| Human resource management and performance | 2 | 2 | 2 | 2 |
| Policy framework (policies/strategies) | 2 | 2 | 2 | 2 |
| Institutional performance | 2 | 2 | 2 | 2 |
| Legal framework conducive to KRA performance | 2 | 2 | 2 | 2 |
| Macroeconomic framework (financial and monetary policies) conducive to KRA performance | 2 | 2 | 2 | 2 |
| Performance of KRA | | | | |
| Indicator 1 | 2 | 2 | 2 | 2 |
| Indicator 2 | 2 | 2 | 2 | 2 |
| Indicator 3 | 2 | 2 | 2 | 2 |
| Indicator 4 | 2 | 2 | 2 | 2 |
| Indicator n | 2 | 2 | 2 | 2 |
| External factors influencing performance of KRA | | | | |
| Population growth | 2 | 2 | 2 | 2 |
| Weather conditions in Uganda | 2 | 2 | 2 | 2 |
| Political climate in Uganda | 2 | 2 | 2 | 2 |
| Demand in export markets | 2 | 2 | 2 | 2 |
| International inflation | 2 | 2 | 2 | 2 |
| International economy (boom/recession) | 2 | 2 | 2 | 2 |

[8] Range of the Performance scale: (1= Poor, 2=Fair, 3=Good, 4=Very good, and 5=Excellent)

**Figure 9-2: Performance radar for selected PEAP key result areas.**



## 10 Conclusions and Recommendations

The APIR 2006 has been a learning process. This has proven to be useful, and the challenges encountered and the mistakes made, as well as the achievements - are crucial for future processes. It is important to define the roles of different stakeholders and to assess how capacity can continue to be built and how institutional anchorage can be increased especially regarding overall prioritisation of expenditure against PEAP outcome targets, providing comparative measures of efficiency and effectiveness in delivery of outputs and outcomes, mainstreaming cross-cutting issues (gender, HIV/AIDS, population growth, environmental issues) and improving linkages and synergies within a pillar framework. The APIR is intended to function as a forum for mutual accountability between Government development partners' performance.

The key recommendations from the 2006 APIR are as follows:

### 10.1 Pillar 1: Economic Management

a) ***Maintain the upward economic growth trends:*** Macroeconomic policy has been broadly correct for some years. Inflation has been under control; the real exchange rate is falling; GDP growth is steady at a reasonable rate with the possibility of faster growth if there is peace in the North; and exports are growing faster than GDP. Within GDP, private sector production and spending on health and education are growing faster than GDP and therefore increasing their share of GDP. Poverty has resumed its downward trend, because of steady GDP growth in general and steady growth of private sector production in particular.

b) ***Reduce the budget deficit after grants:*** The growth of the budget deficit after grants is generating high interest payments on Government debt. The trends should be reversed.

c) ***Maintain agreed levels of Joint Partnership Budget Support:*** To reduce the risk of short-term disruption of Joint Budget Support Operations (JBSO), the donors and the Government should reach an agreement not to cut Joint Budget Support in the current fiscal year and only do so in the following fiscal year by a limited amount. Also, this agreement should clearly articulate areas of performance for any JPBS cuts.

### 10.2 Pillar 2: Production, Competitiveness and Incomes

a) ***Strengthen, maintain and expand economic opportunities:*** Policies that focus on the growth of the monetary GDP, the positive effects of improved rural roads in some areas and the provision of agriculture extension have had a great impact on rural incomes. Rural poverty has been reduced, even though agricultural production has been growing more slowly than the population. An increasing proportion of subsistence farmers are selling some of their food output, selling other crops for cash, and finding off-farm sources of income.

b) ***Implement policies geared towards sustainable poverty reduction, and conflict resolution as a means of reducing the dependence on environmental products:*** The environment is threatened, with deterioration of soils and forests. Maintaining policies, which reduce poverty and create wealth, is the most effective way of reducing the pressure on the environment, because poverty drives people to overuse the soil and deplete the forests. The return of some internal migrants to the North would reduce pressure on the environment, at least, temporarily.

c) ***Reduce the regulatory burden to the private sector:*** Enhancing private sector competitiveness requires the Government to reduce the regulatory burden for the private sector. The World Bank's publication - Doing Business - shows that the amount of regulation has slightly increased. Policies to reduce 'red tape' and curb corruption are needed to reduce these trends.

d) ***Limit policy on microfinance to the provision of financial infrastructure:*** Available evidence shows that credit appears to have little or no impact on agricultural output, but has been effective in increasing off-farm income opportunities. Public sector engagement should provide services like technical assistance in book-keeping, building savings, regulations for accessing credit and enterprise selection, and expanding the reach of financial institutions.

e) ***NAADS should continue to expand its coverage:*** Expansion of NAADS will help to ensure more effective extension, through better two-way communication: of research results to extension workers and of farmers' needs via extension workers to research institutions. At present, the capacity to translate potential demand by farmers, into effective technologies to be used by farmers, is still low. This hampers the productivity of farmers.

### 10.3 Pillar 3: Security, Conflict Resolution and Disaster Management

a) ***Restore peace in all conflict areas and sustain peace amongst Uganda's neighbours:*** Many of the PEAP objectives will be more reachable, if the peace process in the North is successful. Peace among Uganda's neighbouring countries also provides opportunities for trade, as evidenced by the recent rapid growth of exports to DRC and Sudan.

b) ***Adopt policy instruments appropriate for the differing types of conflicts with their diverse nature:*** The PRDP, as a comprehensive expenditure plan for the North, is an important step in the right direction. However, implementation needs to be phased with careful consideration of the resources available in terms of management capacity, construction capacity, and availability of skilled labour. Policy implementation should prioritise actions that assist women and children who are severely affected by the conflict.

c) ***Establish appropriate structures to address security and development across the nation:*** Sector Working Groups (SWGs) that include all the relevant Ministries, NGOs and development partners, are suitable for dealing with sectoral issues raised. Routine reviews should be conducted in the context of the changing environment and the security situation in the country as a whole.

d) ***Limit off-budget financing to the security sector:*** Funding for security operations should be defined within the MTEF so that it is easy to show the Government contribution to the sector in aggregate terms. The current MTEF definition of pillar three is limited mainly to the security sector. Elements that compose the sector are included elsewhere in the MTEF. Because there is a lot of off-budget financing that goes towards the sector, it is difficult to show the government contribution in aggregate terms. The Ministry of Finance, Planning and Economic Development (MFPED) and other stakeholders like the Office of the Prime Minister need to clarify the MTEF definition of the pillar and address the issue of off-budget financing which is a set back to overall planning, aid effectiveness, transparency and predictability.

e) ***Implement the National Policy on Disaster Management:*** Implementation of the National Disaster Policy would contribute to the development of capacity to reduce Uganda's vulnerability to natural disasters and violent conflict. Additionally, the implementation of the Security Policy Framework needs to be revisited. Uganda has commenced implementation of the National Peace, Recovery and Development Plan for Northern Uganda (PRDP) and much progress has been achieved under this Plan. The relevance of the PEAP Pillar in this context should also be revisited. The lack of donor coordinated aid for rehabilitation in the North remains a big issue to be resolved. Finally the situation of women and children in conflict areas should be given priority and measures to alleviate their problems be formulated as part of this Pillar.

### 10.4 Pillar 4: Good Governance

a) ***Develop a medium term framework for assessing governance performance:*** The limited definition of Governance and the lack of an overall governance assessment framework in Uganda hamper efforts to measure progress in this area. Even with the current indicators, no data were available against which to measure the targets. There is need to improve the indicators of a strengthened system of representation in order to understand better the factors that affect voter turnout and public satisfaction with the extent of democracy. There are a number of isolated approaches to the measurement of governance performance including those from various government institutions, civil society organisations, local development partners and other global institutions. The multiplicity of policy and monitoring frameworks/matrixes also poses a challenge for the critical analysis of governance performance. Stakeholders now tend to rely on short term and ad hoc measures to judge governance performance. An in-depth analysis is required to establish the issues underlying the voting trends for both national and local council elections. Coupled with this, it is vital that a better assessment framework for good governance is developed to avoid the use of short term and ad hoc parameters to measure progress of governance performance. It is important that stakeholders consider a more coherent, longitudinal and relevant set of indicators to replace the current indicators that only cover certain parts of the crosscutting governance field.

b) ***Assess the impact of public service reforms so far undertaken with a view of providing a basis for the implementation of the new reform programme:*** Two public service reforms have been undertaken, but it is not easy to gauge their overall contribution to public service performance.

c) ***Curb the rising cost of public administration:*** The rising cost of public administration seems to be crowding out service delivery priorities in the Government budget. The rise of such costs is influenced by political pressure on the budget management system. It is critical that this issue is addressed otherwise there will be less gains in attaining defined outcomes, if the management of the state turns out to be more than what the country can manage. One of the ways of minimising the cost of public administration is to ensure that creation of new districts is preceded by a viability assessment.

d) ***Analyse the mandates and functions of the several institutions and agencies involved in pursuance of better governance:*** The likelihood of duplicated mandates across public sector institutions is high. This duplication is costly contributing to the increased cost of public administration. A detailed functional analysis of the numerous agencies and organisations involved in the pillar should also disclose the efficiency of the various agencies and possible areas of redundancy, under-resourced functions, possible wastage and under-utilisation

e) ***Support civic education:*** This should not be limited to voter education but broadened to help ensure citizens are well informed. The National Civic Education Programme, (currently in its inception stage) if supported will ensure that there are well informed citizens willingly and meaningfully participating in Government programmes.

f) ***Reform the law on defilement:*** As part of the strategy to reduce case backlog, the APIR re-emphasizes reform of the law on defilement as a clearly required policy action that should be expedited.

g) ***Enhance Local Government tax base and revenues***: The central government grants system should target reducing the volume of grants and the proportion of unconditional grants. Generating own sourced revenues is important for sustainability, ownership, accountability and efficiency of local governments. It is also critical to reverse the trend of breaking-down the subsidiary principle for division of functions between the administrative tiers from the very top to bottom of the system.

h) ***Revise the laws relating to CSOs and freedom of press to ensure productive relationships:*** It is vital that Government considers examining the laws in critical areas of civil society and NGOs, freedom of press, and proposing amendments with a view of tapping the potential of these institutions in fostering governance and development.

### 10.5 Pillar 5: Human Development

a) ***Enhance the quality of primary education:*** Policies on primary education enrolment have been successful in getting more children in school, but less successful in that only half of them stay until completion.

b) ***Improve health indicators:*** Indicators of progress with health are disappointing, especially as reduced infant and child mortality are important for reducing population growth in the long run. Focus should go to raising educational attainment of females as a strategy towards reducing - infant mortality through: seeking ante natal care, increasing delivery in health centres, improving immunization coverage, and improving nutritional status of children. More attention should be given to providing family planning services to hard to reach areas and IDP camps.

c) ***Avail family planning services at a low cost to everyone in society:*** Polices that affect fertility levels should be actively promoted. These policies need to focus on improving female female education and female employment opportunities, raising incomes, enhancing access to reproductive health services and increasing family planning efforts.

d) ***Investigate factors contributing to malnutrition and develop policy actions to curb the level of malnutrition:*** The factors may include limited access to land, food shortages, the shift from subsistence to commercial agricultural production, challenges of food processing and storage, and gaps in community mobilisation.

e) ***Activate the Memorandum of Understanding on Sanitation between the three key ministries and prioritise actions to improve performance on sanitation coverage:*** Improved sanitation has positive effects on a range of human development outcomes.

f) ***Improve human development outcomes in the north:*** The social indicators in the North are far below the national average, which signals the necessity to re-establish peaceful communities and improve the quality of service delivery.

### 10.6 PEAP and the Budget

a) ***Establish planning and budgeting targets:*** Government needs to be fully realistic in target setting based on costing of plans, and to revise prioritisation of resources as required by adjusting MTEF budget shares to ensure a balanced implementation of the PEAP. Choices will have to be made as to which of the many deserving categories should be given priority without increasing the resource envelope.

b) ***Develop an explicit link between PEAP objectives and MTEF sector budgets:*** For the current PEAP (2004/05-2007/08), translation of the annual MTEF budget, including projections, into a PEAP-based budget is required. This “shadow PEAP budget” would then be used for monitoring of PEAP implementation performance and resource requirements. For future PEAPs, revision of the existing MTEF sector structure to correspond better with PEAP objectives, assigning policy objectives to the new sectors in the context of the planned new sector working group structure, and making sectors accountable for delivering results would be more desirable. Output-Oriented Budgeting (OOB) and Unit Cost Budgeting (UCB) needs to be fully institutionalised and consistently used for developing sector investment plans in Government.

c) ***Pursue improvements in budget efficiency:*** This could be achieved through conduct of and follow-up on sector reviews, PERs, efficiency/value-for-money studies on a planned and consistent basis for the MTEF sectors or at PEAP pillar level – giving priority to those sectors considered key to the achievement of the principal PEAP objectives.

d) ***Develop and use of a tool for comparing the performance of the PEAP pillars/KRAs in attaining the PEAP outcome targets:*** Initially for 2007/08, this tool should be considered, building on the sector findings from the APIR process.

### 10.7 Monitoring and Evaluation

a) ***Develop and institutionalise a Policy Calendar***: There is currently uncertainty about the timing of the revision of the PEAP, the relationship between PEAP and new policies, and the institutional arrangements and process for revision. There is need for the development of an appropriate and agreed policy calendar taking into account the political and budget cycles. In this way the annual sector reviews need to inform future APIRs in a uniform and standardised manner.

b) ***Annualise PEAP Outcome Indicators:*** Over the 2006 review period, Government was involved in working around a PEAP Pillar coordination framework, breaking down the policy actions that are contained in the PEAP Results and Policy Matrix into annual policy benchmarks. The annual policy benchmarks were harmonised and aligned with sector strategies, thus ensuring that the PEAP is well aligned with sectors’ implementation strategies. The results of this exercise led to the PEAP Annual Policy Actions Matrix. This process should be maintained.

**c)** ***Implement the Annual PEAP Implementation Review Process (APIR):*** The APIR objective is to ensure the effective communication of PEAP results to decision makers. This will increase broad based appreciation and ownership of PEAP Results within the executive branch of Government, legislators, private sector, civil society and development partners.

The APIR therefore constitutes an inclusive process culminating in an APIR event. The APIR event examines the extent sectors underlying each Pillar have moved towards the achievement of the overall objectives of the PEAP and identifies future actions to address challenges. The APIR provides the building blocks for the adjustments of indicators in the PEAP Results and Policy Matrix. The process as it has started should not be disrupted.

**d)** ***Link the APIR and the National Budget Process***: It is planned that M&E arrangements under the PEAP review process should be linked directly to different decision-making processes within Government, in particular the planning, budgeting and the sector coordination mechanisms. The APIR review plans to utilise the budget progress reviews (use the information on the outturns from the previous financial year) and gradually link the review of activities, outputs, outcomes and impact with the inputs (budgeting side). For the current review, this has been achieved through the inclusion of an analytical chapter that links the national budget to the Key Results Areas in the PEAP Results and Policy Matrix.

e) ***Develop a Multi-sector Local Government Performance Review Mechanism***: Over the years, reporting and M&E on district level has been strongly influenced by reporting requests from the national level and from donor-funded projects. Innovations like the Local Government Development Programme have been instituted as both development fund disbursement mechanisms and policy compliance mechanisms with a carrot and stick approach. In addition, the reporting requirements from higher levels cause several problems at the district and lower levels. Often authorities at national level request information from districts based on different procedures and formats, district level staff are therefore overloaded. These need to be harmonized and streamlined.

f) ***Ensure that annual policy benchmarks are harmonised and aligned with sector strategies:*** The link between sector implementation and the national planning framework is instrumental in achieving results even beyond the PEAP period.

g) ***Effectively communicate the APIR process to stakeholders***: This will ensure broad based appreciation and ownership of PEAP Results within the executive branch of Government, legislators, private sector, civil society and development partners. M&E information is only useful if it leads to decision making. Communicating the results of the APIR and ensuring that there is sustained dialogue around results is instrumental.

h) ***Ensure a strong M&E capacity at the Local Government level:*** Local Governments are the front line service providers and therefore tracking results at the Local Government level is a very important part of managing for development results.

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