

UGANDA

INTERIM-COUNTRY ASSISTANCE PLAN

AUGUST 2003

Department For International Development, Uganda

PART I – CONTEXT

A Summary

1. Uganda's PRSP; the Poverty Eradication Action Plan, is currently being reviewed. The consultative process for the 2004-06 PEAP began in October 2002 and is expected to be complete by December 2003. DFID (U) has agreed to complete a joint CAS/CAP process with the World Bank and other bilateral donors (possibly the Dutch and Irish) following publication of this revised PEAP. This interim Country Assistance Plan (I-CAP) provides the strategy DFID (U) will follow in the intervening period.

2. Remarkable progress has been made in implementing the Poverty Eradication Action Plan (henceforth the PEAP) over the last decade. Uganda has made substantial progress towards the Millennium Development Goals (MDGs) of income poverty reduction, universal primary education, and gender parity in primary education, HIV/AIDS and increasing access to safe water. Substantial challenges remain, however, in

ensuring gender parity in secondary education, combating infant, under-five and maternal mortality, reducing malaria and HIV, improving environmental sanitation, and reversing the loss of environmental resources. Although Uganda has been successful in reversing the trend of HIV/AIDS, it is still experiencing a generalised epidemic, and consequently reduced workforce productivity, diversion of household incomes and an increasingly dependent population of orphaned and vulnerable children are hampering development. There is also continuing worrying evidence of widening income disparities between northern Uganda and the rest of the country, and the richer and poorer groups. GDP growth remains strong but is slowing. In addition, slow progress has been made to reduce the opportunities for corruption.

3. Uganda's poverty reduction agenda faces a number of risks over the next few years. The possibility of increased instability ensuing from reform of the political system, the continuing anarchy in eastern Congo, southern Sudan and Acholiland, together with the troubled relationship with Rwanda, will continue to divert the attention of Uganda's leadership from more explicitly pro-poor concerns. In this context of continued insecurity, both real and perceived, the level of defence expenditure may remain an obstacle, threatening the integrity of the budget process and its impressive growth record, which is the cornerstone both of Uganda's strong development partnerships, and of the high volume of aid flows that are probably required to meet PEAP targets. The increasing move to provision of budget support, which is both high profile and administratively simple for donors to restrict the flow in time or quantity, will compound potential problems. Uganda has managed donor unpredictability to some degree by building reserves and protecting disbursements to priority sectors; but these are not solutions.

4. The major factors to be addressed by DFID (U) in delivering on the MDGs/PSA/SDA targets in Uganda in the next year centre on how to ensure successful implementation of the PEAP and manage the transition phase to increasing budget support. The strategy outlined here is focused directly on these challenges, and is informed by the growing recognition of the benefits of harmonisation and of moving towards an emphasis on influencing and support for Ugandan led processes over orthodox 'programme management' methods of delivery. It envisages a phased increase in the proportion of the programme provided in the form of general budget support in the high case scenario rising from 67% in 2003/04 to 80% in 2005/06, and in the base case scenario from 62% to 77% by 2005/06. Whilst project expenditure will fall considerably in this period, a minimum level of project expenditure is deemed essential, as it is not envisaged that budget support alone will be sufficient or appropriate to ensure continued progress towards the PSA/SDAs, PEAP targets and MDGs. This is especially true in the areas of advocacy, support to civil society, HIV/AIDS, humanitarian activities and conflict reduction.

5. DFID (U)'s current and projected staffing levels are adequate to meet this revised and more focussed agenda. There will be a need to resist pressures to expand the agenda in order to ensure that these resources are not overburdened. Increases in SAIC Advisory capacity (mainly as a result of localisation of UK based posts) will enhance the relevance of DFID (U)'s interventions in the policy debates and ensure an adequate Ugandan voice in these discussions. DFID (U) has already allocated significant resources to its training and development programme and will continue to do so for the period under review. Staff have had their job descriptions refocused in line with the Director's Delivery Plan (DP) and the performance management scheme has been properly embedded. DFID (U)'s revised induction process is now fully integrated into the work of the office.

B The Challenge

1. Uganda is on track to meet the **income poverty** MDG, mainly due to high economic growth (6.0% in 2001/02) achieved through sound macroeconomic policies and ongoing macro stability. Past determinants will continue to play an important role in the future, as will investor confidence (should political instability and corruption improve), infrastructure (especially transport) expansion, and improved primary health care and secondary education. Attainability of the PEAP target of 10% of the population below the Uganda poverty line by 2017 is within reach, possibly with economic growth rates lower than the ambitious PEAP targets of 7% per annum. However, recent research suggests that 5.5% growth is needed to reach this target, and growth is slowing (predictions for 2002/03 are 4.9% growth with population growth of 3.4% per annum). Further effort by Government on the enabling environment for growth will be needed.

2. However, this must be seen against a backdrop of worrying evidence of widening **income disparities** between northern Uganda and the rest of the country. Government continues to allocate and disburse resources to districts in northern Uganda for poverty reduction programmes, and a Social Fund Credit has been agreed with the World Bank targeting northern districts. But continuing conflict undermines resource effectiveness. Improvements will only be possible if the security situation allows resources to be absorbed and viable policies and systems are in place to ensure their effective use.

3. There is renewed strong emphasis by Government on facilitating the role of the **private sector** as the engine of **growth**, with revitalisation of the Medium Term Competitiveness Strategy involving private sector more closely with budgeting processes, and consultations on constraints and priorities. Unfortunately, the President's persistent interventionist stance threatens progress in this area, with the Strategic Exports Programme continuing to provide for expansion of uncompetitive sectors, and the President giving direct, un-transparent and non-WTO compatible support to individual investors. Efforts are also underway to liberalise the domestic saving sector through pension reform. This needs to be widened to all stakeholder groups since the potential reforms are extremely far-reaching for all Ugandans. Government will need to be more involved with this rapidly moving process. The private sector also needs to improve its own influencing and advocacy role through enhanced coordination and representation. Growth estimates of 5.6% for 2003/04 have been reduced in part because of delayed progression of Bujagali Dam, but this now looks likely to resume in early 2004. Uganda's continued fast population growth rate (3.4%), high total fertility rate (6.9, placing it 3rd highest in the world), and continued vulnerability of agricultural growth to climatic conditions, continue to undermine efforts to increase growth and GDP per capita.

4. The multi-sectoral Plan for Modernisation of **Agriculture** (PMA) continues to drive a steady process of fundamental institutional change. With the aid of the Non-Sectoral Conditional Grant (NSCG), local government planning is becoming more opportunity, rather than only needs, based. The National Agriculture Advisory Service is learning lessons quickly and evolving in response to these, and the Minister of Agriculture, Animal Industry and Fisheries is championing a similar process of reform in research. Marketing, micro-finance and infrastructure programmes are underway, environmental sustainability is increasingly prominent across PMA implementation and HIV/AIDS is beginning to be mainstreamed. There has been partial progress in the following PMA priority areas: agricultural education and wider project and programme

realignment outside of agriculture. Challenges remain in full engagement with the private sector and civil society, implementing the communications strategy, addressing unequal gender relations, reporting against the monitoring and evaluation framework, and the Strategic Exports Programme outlined in paragraph B3 limiting incentives for institutional reform.

5. Government commitment and leadership, and timely and coordinated external support, have ensured Uganda is on track to meet the MDGs for **education**. 83.5% of school age children are currently enrolled in primary schools and wealth and gender biases have largely been addressed. Children in the lowest wealth quintile are as likely to go to primary school as the highest wealth quintile. If further progress is to be made, quality improvements, availability and efficiency of resource use, capacity constraints, population growth and access to post-primary education must be addressed.

6. **Infant and under-five mortality** rates have stagnated during the 1990s and remain at very high levels. The story for **maternal mortality** is equally discouraging: There has been no improvement over the past decade and PEAP targets have been missed. Major determinants include very high fertility, low birth spacing, teenage pregnancies, unsupervised deliveries, low immunisation coverage, increased malaria prevalence and malnutrition. A wide range of multi-sectoral interventions are needed, including family planning, improved health services, education, water/sanitation, and improved environmental health.

7. **Malaria** prevalence has increased because of increased drug resistance, limited use of mosquito nets, and possible climatic change. Incidence could be reduced if bed nets were subsidised, the new drug policy implemented, pregnant women presumptively treated and home-based treatment scaled up. The MDG for reducing **HIV/AIDS** was met in 1991 due to early intervention, political leadership, strong focus on prevention and a multi-sectoral approach. The PEAP target of 5% can be attained with a continued focus on increasing awareness of prevention, condom distribution and reduction in mother-to-child transmission. Although there is a growing crisis of care for People Living with Aids (PLWA), there is a risk of complacency as government and society become “epidemic fatigued” and perceive there to be a lessening risk of infection. ‘Mainstreaming’ has become a frequently used term although interpretations of it vary. For the purposes of this I-CAP, mainstreaming means continuing our core business, remaining aware of how that business might have negative consequences in general but at the same time identifying opportunities to enhance development outcomes by taking steps to avoid these consequences or to mitigate against their impact. It is important to acknowledge that those issues that need to be mainstreamed into our work are usually complementary and not competing. For example, addressing gender issues and land reform will itself empower women and reduce their poverty thus also reducing their vulnerability to HIV. Recognising this fact is important to demonstrate our understanding of these issues.

8. Access to improved **water** sources has expanded rapidly over the last decade due to availability of cheap technologies, emphasis on hardware provision, central implementation and substantial increase in resource availability. But cheap interventions are running out, decentralisation is temporarily slowing progress and stakeholders are questioning value-for-money. Future success depends on efficiency improvements, emphasis on operation and maintenance of supplies, and increased capacity to demonstrate sector performance over and above physical construction. **Sanitation** remains under-prioritised, with little progress registered. There is low household demand and

Government is overlooking the importance of sanitation for household health and productivity. Poor inter-sectoral collaboration, fragmented and ineffective funding arrangements, and lack of best practice hamper sub-sector performance.

9. Progress continues in ensuring that the poverty reduction process recognises **environmental sustainability**. An environment and natural resources sector-working group is developing a SWAp with support from the Ministry of Finance. Earlier this year the Government launched a review of Uganda's framework for environmental governance; this should help address the institutional weaknesses in central government – including the poorly performing responsible Government Ministry and Agency – and the conflicting incentives apparent in local government and the rural economy.

10. There is growing pressure for **democratisation**. The present 'Movement' system, professing to cover all shades of the political spectrum under one umbrella, has played a useful role in guiding Uganda from civil conflict to stability and growth. But many Ugandans are becoming disenchanted with a system they consider undermines their political and social rights. The President's recent statements, and the Movement's recommendations in May 2003 that could pave the way for new political parties, are encouraging signs. However, there are critical questions about suggestions to lift limits on presidential tenure and increasing presidential power vis-a-vis Parliament. Soon after the recommendations were discussed, the President axed a number of the most vocal critics of his staying for a third term from the Cabinet. Although a formal split in the Movement is not imminent, tensions within the Movement can only now mount. A Constitutional Review Commission is due to report later this year, which will set out the basis on which Ugandans will decide the shape of their political future. Developments in the political landscape are crucial for Uganda's international reputation, aid flows and investor confidence.

11. Question marks remain over commitment of Government to combat **corruption**. Uganda ranks 9th worst on the Transparency International corruption index, and there is increasing evidence that perception of corruption by business and others is getting worse and acting as a constraint on investment. Encouragingly, those responsible for reform policies continue to bring issues to the table and there are still champions within the system. Reform of local government is a positive example. The community level of government (LC1) is popular and well institutionalised. Progress in public management reforms will also help, though the trajectory of the reform has slowed over the past few years. The new Budget Act has enabled Parliament to become more engaged with the budget process, the new Procurement Act has increased transparency and the Auditor General has increasing access, including to classified expenditure. But little progress has been made in detection, investigation and prosecution, particularly in high-level cases.

12. Uganda's engagement in **armed conflict** continues to divert scarce resources from poverty priorities, and have devastating **humanitarian** consequences, with almost one million internally displaced people dependant on humanitarian assistance. Military campaigns in northern Uganda, and significant deterioration in relations with Rwanda have recently led to increased spending on defence. While legitimate security concerns exist, donors judged these did not justify all additional expenditure in 2002/03, nor disregard for the agreed budgetary processes, and thus budget support flows were collectively cut by \$US 20m last year. Commitments by the Government have led to an unprecedented level of transparency in the budgetary process for defence expenditure. At the 2003 Consultative Group (CG) and Public

Expenditure Review (PER) Government agreed to the audit of classified expenditure plus a role for the IFIs in monitoring expenditures, implementation of the new Procurement Act and greater clarity over the composition of the defence budget. These should reduce the opportunities for the President to repeat the misdirection of the budget process in 2003/04. A comprehensive Defence Review is currently being undertaken to provide solid analysis for security sector reform.

Government's Poverty Strategy

13. Uganda was the first country to have a workable PRSP (the PEAP). The current PEAP is a **broadly owned** poverty reduction strategy, which has been informed by an ongoing Participatory Poverty Assessment process and consultations among Government, civil society, academics and development partners. It is the strategy by which **expenditure** is allocated: implemented through the budget in a Medium-Term Expenditure Framework (MTEF), with priority expenditures protected by a ring-fenced Poverty Action Fund. This has resulted in absolute and relative increases in the level of resources for poverty-focused programmes, with resources for basic health and education in particular rising continuously, though this has now slowed. The PEAP is presently being revised, and should be completed by December 2003.

14. The PEAP is **results-oriented**, focused around 4 pillars: Enabling Environment for Sustainable Growth and Transformation, Governance and Security, Increasing the Ability of the Poor to Raise their Incomes and Improving the Quality of Life for the Poor, with clear outcomes that will directly benefit the poor. It is also focused on **longer-term** targets, and the Poverty Monitoring and Analysis Unit have played an important role in ensuring well-informed policy analysis on progress towards these. It is **comprehensive**, recognizing the multi-dimensional nature of poverty, although there are weaknesses in the present version's oversight of regional inequalities. Lastly, the PEAP is **partnership-oriented**, outlining Government's plans for coordinated participation of all development partners, and aspirations to move to budget support and protect control of resource use. This vision is operationalised in the 'Partnership principles' and 'Operational principles for budget support donors', which provide clear statements on standards of partnership now expected in development cooperation.

15. Challenges for PEAPIII concern the way Government relates to the wider constituency of stakeholders as it reviews and elaborates the policies encompassed by the strategy, and the effects this has on the level of policy **ownership** outside Government circles. PEAPIII also needs to be better **prioritised**, and include more about the process and pace of reforms necessary; this weakness in PEAPII has led to unsatisfactory donor reliance on the World Bank's Poverty Reduction Support Credit (PRSC) to agree conditionalities for budget support provision. PEAPIII needs to take as hard-nosed an approach to prioritisation as the PRSC. The Government has committed to doing so in development of a PEAP matrix, incorporating points from a joint donor-Government political governance matrix, but no progress has been made so far.

Budgetary and Macroeconomic Implications

16. The budgetary and macroeconomic implications of implementing the PEAP agenda are particularly acute in Uganda due to a large fiscal deficit financed by external assistance (donors currently fund around 50% of the budget), and insufficient domestic resource mobilisation and low absorptive capacity. These constraints create trade-offs: between short-term macroeconomic objectives and long-term development ambitions. The Government has admitted that on current funding projections, Uganda will not meet all the MDGs. However, the Ministry of Finance remain concerned about the adverse macroeconomic impact of aid and possible reduced value for money and efficiency of government spending. The arguments are not clear however. Much depends on the long-term projections, and predictability, of future donor aid inflows, as well as on the assessment of the productivity enhancing effects of public expenditure; and on the uncertain impact of higher aid on exchange and interest rates and hence on private sector led growth.

C Risk Analysis

1. Threats to successful PEAP implementation emerging from the broader development context in Uganda are presented in the 2001 APPR, updated below. The first table summarises some of the **key risks** to the PEAP as perceived by DFID and our partners. The second takes a medium-term view, and analyses the probability of occurrence and potential negative impact of each risk. The final table details DFID's approach to risk mitigation.

2. In broad terms this analysis shows that the largest risks to the programme are: threat of continued or new internal and external conflict, changing political environment, corruption and that insufficient resources are available to meet Government's poverty reduction targets. Through ongoing diplomatic relations and financial support, DFID and BHC are pursuing a number of avenues to ameliorate the impact of these risks, as outlined in the Risk Mitigation table, including: addressing regional inequalities, a joint BHC-DFID strategy for conflict reduction in Acholi sub-region which has recently been updated for 2003/04; continued engagement in the Defence Review process; and support for civil society in advocating for pro-poor change and political participation.

TABLE 1: SUMMARY OF RISKS

<i>Risks emerging from current approaches to PEAP implementation</i>	
1. Available resources (from tax revenues and donors) prove insufficient for the realisation of PEAP targets	
2. High aid flows and excessive budget deficit force exchange/interest rates to rise and thereby constrain	private sector development and growth
3. High aid flows distract from PEAP objectives with government focusing on issues of absorption	
4. The modalities of donor-government dialogue marginalise key ministries and local governments,	compromising their will/capacity to deliver on PEAP objectives
5. The donor-government dialogue marginalises the voice of private sector and civil society, compromising Government accountability	the breadth of participation/ownership and
6. The shift from NGO to government service delivery jeopardises services in the short-to-medium term and	undermines the credibility of civil society
7. Budget support reduces the ability of donors to calibrate their responses to any negative impacts of	government policy
8. Short-term progress is undermined by over-ambitious planning	
9. Lack of political support for initiatives to reduce population growth undermines pro-poor economic growth	
10. PEAP targets are achieved but through improvements in the lives of the wealthy and not of the poor	
11. Inappropriate Government of Uganda spending undermines the case for aid within donor governments,	which, in turn, may undermine the predictability of donor funds
12. Short-term economic growth is pursued at the expense of environmental sustainability	
13. Gender issues are marginalised within the PEAP processes	
<i>Risks emerging from the broader Ugandan context</i>	
14. Decentralisation is ineffectively managed, jeopardising service delivery and growth	
15. Regional conflicts divert political focus and resources away from PEAP priorities	
16. Reforms in Public Sector Management and Finance, and in Justice, Law and Order prove insufficient to	curb systemic corruption
17. 'Grand corruption' continues with progressive entrenchment of 'above the law' officials	
18. Government continues existing internal military campaigns, diverting political focus and resources away	from PEAP priorities, and with negative humanitarian impacts
19. New internal armed conflicts are caused by a failure to implement political and governance reforms	
20. The people of Uganda are given insufficient voice within the PEAP processes	
21. Political opposition fails to engage constructively with the pro-poor development agenda	
22. Security sector reforms are ineffective, leading to reduced accountability to civilian authorities, increased	use of unlawful violence, and/or a deteriorated defence capability
23. Insufficient attention is paid to the HIV/AIDS pandemic, leading to stalls/reversals of progress	
24. An increasing number of orphans, vulnerable children and child-headed households jeopardises progress	towards the PEAP objectives
25. Political transitions reduce the government focus on PEAP implementation and pro-poor growth	
26. Political interference in the private sector undermines investor confidence & the building of an enabling	environment

TABLE 2: ANALYSIS OF RISKS OVER NEXT 5 YEARS

Probability of occurrence	Low	Medium	High
Possible negative impact on PEAP implementation			
Low	<p>8. Over-ambitious planning undermines short-term progress</p>	<p>20. People of Uganda given insufficient voice within the PEAP processes</p>	<p>21. Political opposition fails to engage with pro-poor development agenda</p>
Medium	<p>11. Inappropriate Govt of Uganda spending undermines the case for aid within donor governments</p>	<p>2. High aid flows obstruct economic growth 3. High aid flows distract from PEAP objectives with government focusing on absorption 5. Private sector and civil society marginalised in policy dialogue 6. Increased government service delivery jeopardises services in the short-term and undermines the credibility of civil society 7. Donor ability to calibrate response to government policy is reduced 12. Short-term economic growth is pursued at expense of the environment 13. Gender issues are marginalised 14. Decentralisation is ineffectively managed 24. Increasing number of orphans and child headed households jeopardises progress 25. Political transitions reduce government focus on PEAP objectives</p>	<p>9. Population growth undermines economic growth 26. Political interference in private sector undermines investor confidence and the building of an enabling environment</p>
High	<p>4. Key ministries and local government marginalised in policy dialogue 23. Insufficient attention is paid to the HIV/AIDS pandemic</p>	<p>10. PEAP targets achieved but through improvements in the lives of the wealthy 15. Regional conflicts divert focus/resources from PEAP priorities 16. Public sector reforms are insufficient to curb systemic corruption 19. New internal armed conflicts caused by failure to implement governance reforms 22. Security sector reforms are ineffective</p>	<p>1. Available resources prove insufficient to achieve PEAP targets 17. 'Grand corruption' continues 18. Existing internal armed conflicts continue</p>

TABLE 3: RISK MITIGATION

Risks	Current and Future Mitigation
<p>Level One (highest risk)</p> <p>1. Available resources prove insufficient to achieve PEAP targets</p> <p>17. 'Grand corruption' continues</p> <p>18. Existing internal armed conflicts continue</p>	<p>URA strengthening, work on growth, trade (via EU), MTCS, PMA, carefully consider more aid/prioritising PEAP targets</p> <p>Implementation of HMG anti-corruption strategy. Support to JLOS SWAp (Utstein/Netherlands), anti-corruption programme</p> <p>Implementation of 2003/04 HMG conflict reduction strategy</p>
<p>Level Two</p> <p>9. Population growth undermines economic growth</p> <p>10. PEAP targets achieved but through improvements in the lives of the wealthy</p> <p>15. Regional conflicts divert focus/resources from PEAP priorities</p> <p>16. Public sector reforms are insufficient to curb systemic corruption</p> <p>19. New internal armed conflicts caused by failure to implement governance reforms</p> <p>22. Security sector reforms are ineffective</p> <p>26. Political interference in private sector undermines investor confidence and the building of an enabling environment</p>	<p>TA to the Reproductive Health Div., MoH, support to health SWAp, advocacy through HDP group and other fora</p> <p>Work to ensure PEAP revision sets disaggregated targets and monitors these. Work with sectors on targeting assistance to poorer and geographically marginalized districts</p> <p>High level dialogue to reaffirm the basis of GoU:HMG partnership; support to joint GoU/Rwanda monitoring processes</p> <p>CAPEP, continued engagement around pay reform, financial management, ROM etc.</p> <p>Dialogue and diplomacy around joint donor political governance matrix</p> <p>High-level dialogue to reaffirm the basis of GoU:HMG partnership; successful completion of the defence review; development of strategy for further support to security sector reform in Uganda</p> <p>Increased private sector and donor focus on special investor incentives, resource allocations and other political involvement</p>
<p>Level Three</p> <p>2. High aid flows obstruct economic growth</p> <p>3. High aid flows distract from PEAP objectives with government focusing on absorption</p> <p>4. Key ministries and local government marginalised in policy dialogue</p> <p>5. Private sector and civil society marginalised in policy dialogue</p> <p>6. Increased government service delivery jeopardises services in the short-term and undermines the credibility of civil society</p> <p>7. Donor ability to calibrate response to government policy is reduced</p> <p>12. Short-term economic growth is pursued at the expense of the environment</p> <p>13. Gender issues are marginalised</p> <p>14. Decentralisation is ineffectively managed</p> <p>21. Political opposition fails to engage with pro-poor development</p>	<p>Work on URA, trade, MTCS, PMA, research on macroeconomic impact of large aid bases</p> <p>Public sector reform/fiscal decentralisation, CAPEP</p> <p>Sector programmes, decentralisation programme, support to Parliament</p> <p>2nd Civil Society Umbrella Programme, MTCS, political governance matrix</p> <p>CSUP2, sector programmes, PPAs with international NGOs</p> <p>High level dialogue to reaffirm the basis of GoU:HMG partnership, co-ordinate development of base/high case 'triggers'</p> <p>Support the ENR-SWG to ensure that growth and environment linkages are better understood and incorporated in the revised PEAP</p> <p>Support to CSO/donor/Government of Uganda group working to ensure gender issues are incorporated into revised PEAP.</p> <p>CSUP2 support to gender advocacy work. Use of PEWG to ensure Working Groups address gender issues</p> <p>Decentralisation programme, sector programmes, CAPEP</p> <p>Political governance matrix</p>

<p>agenda</p> <p>23. Insufficient attention is paid to the HIV/AIDS pandemic</p> <p>24. Increasing number of orphans and child-headed households jeopardises progress</p> <p>25 Political transitions reduce government focus on PEAP objectives</p>	<p>Health sector programme, HIV/AIDS Umbrella Programme, strengthening the NSR and partnership coordination mechanisms, engagement with Global Fund design and implementation</p> <p>Development of social sector strategic plan by the MGLSD. Application to the GAFTM for OVC interventions</p> <p>High level dialogue to reaffirm the basis of GoU:HMG partnership, sector programmes, poverty monitoring/analysis, CSUP</p>
<p>Level Four</p> <p>11. Inappropriate government of Uganda spending undermines the case for aid within donor governments</p> <p>20. People of Uganda given insufficient voice within the PEAP processes</p>	<p>High-level dialogue to reaffirm the basis of GoU:HMG partnership; successful completion of the defence review; development of strategy for further support to security sector reform in Uganda.</p> <p>Political governance matrix, 2nd Civil Society Umbrella Programme</p>
<p>Level Five (lowest risk)</p> <p>8. Over-ambitious planning undermines short-term progress</p>	<p>Continued donor:GoU dialogue to prioritise reform agenda, allow existing reforms to 'bed down'</p>

PART II – UK ASSISTANCE PLANS OVER POVERTY STRATEGY PERIOD

D UK Development Partnership

1. DFID-Uganda will continue to deliver on PSA objectives/PEAP targets primarily through the use of **general budget support** provided to the Government, and linked to the World Bank's Poverty Reduction Support Credit (PRSC). This is the Government preferred modality of assistance. Budget support will be provided as outlined in the 'Operational Principles for Budget Support', which spell out specific terms for reporting and audit requirements, a common framework for conditionality, and specific arrangements for making budget support projections and disbursements. This should lead to significant reductions in transaction costs, improve predictability of funds, protect ownership, strengthen democratic accountability and improve the effectiveness of aid provided.

2. Within this operating framework, DFID (U) will continue with limited project-based activities only in those areas:

- where budget support is not the most effective or appropriate delivery mechanism, for example with the private sector, activities designed to support home-grown change such as promoting political participation, with NGOs around HIV/AIDS, in conflict mitigation, and provision of humanitarian assistance etc.
- where transformation is needed during the current transitional phase to increased budgetary efficiency and effectiveness, for example provision of discrete assistance for capacity building and Government pilots, research etc.

The number of projects will continue to decrease and the proportion of the programme provided in the form of general budget support in the high case scenario rising from 67% in 2003/04 to 80% in 2005/06, and in the base case scenario from 62% to 77% by 2005/06.

3. Most donors are active in Uganda with a combined annual spend of around \$600-800m. Together with emphasis on donor harmonisation and the increasing use of general budget support, this means that most areas are well covered by development assistance. Priority areas for DFID engagement to complement our budget support grant (primarily through dialogue) have therefore been selected based on Government priorities as outlined in the PEAP, where DFID has demonstrated strength, the **risk** analysis as outlined in section C, and our perceived comparative advantage as profiled in the 2001 APPR.

4. In broad terms our gap analysis showed that there was a risk of Uganda failing to secure broad-based ownership of the PEAP/PRSC, and funding shortfalls for priority areas. Additional crucial areas identified are:

- Although **donor harmonisation** is better than in most countries, some donors remain hesitant in trusting others to lead and in supporting Government processes, even when explicit commitments have been made. Further progress is needed to bring all donors on board to strengthen the Partnership Principles signed at the 2003 CG.
- **Private sector growth** will play a pivotal role in reducing poverty on a sustainable basis into the future. While a revised institutional structure is now in place for driving the MTCS forward, overseeing coordination of the Strategic Exports Programme, and linking with the PMA, it remains to be seen how effective this can

be. It is also unclear whether the move of other donors to budget support will impact negatively on their support to the private sector.

- **Geographical and income inequality** has increased over the last few years, more so between the north and the other parts of Uganda.
- **Local government** service delivery and accountability capacity constraints are not being sufficiently addressed.

5. The relatively high level of harmonisation is conducive to specialisation by **comparative advantage**. DFID's strengths are:

- DFID (U) has a level of **access and influence** with Government and multilateral donors, which is not shared by other bilaterals.
- DFID (U) is achieving impact, in partnership with BHC, in the areas of **governance** (including **corruption**) and **conflict** agendas, and enabling environment for private sector growth and increasing access to financial services for poor people.
- **Diverse skills base**. DFID's technical expertise and intellectual rigour are highly valued by our partners.
- **Flexibility**: though there are risks to being seen as the 'donor of last resort', our overall flexibility is appreciated.
- **Lesson learning**. Uganda is at the forefront in much development practice, and DFID (U) is fully engaged in several key reform agendas. At the sector level, we add particular value to technical processes in governance, economics, in some social areas and in rural livelihoods.

6. DFID (U) undertook a **prioritisation** exercise when preparing the 2001 APPR. This resulted in agreement to increase focus and curtail unstrategic activities. Thus, DFID (U) has now disengaged from project support for: procurement, infrastructure, trade policy, land and education. Proposed areas for disengagement on a day to day basis by the end of 2003/04 are: forestry and fisheries, and by end of 2004/05 are: water and natural resources, but DFID (U) will retain a strategic overview and a dialogue based on policy engagement of Government processes in these areas given their impact on the overall poverty reduction process. Our primary areas for continued significant financial engagement in 2003/04–2005/06 will be: central planning processes, public sector reform, corruption, health, growth and private sector development, decentralisation, political governance, conflict and environmental governance and HIV/AIDS.

E Programme Resources

We have attributed both project and budget support to specific PSA and SDA targets as set out in the table below. The approach adopted regarding budget support is to:-

- a) attribute all budget support to the Africa PSA target 1,
- b) allocate 10% to conflict reduction (SDA III) to reflect the engagement in such matters that our budget support has facilitated;
- c) allocate shares of the remainder to SDA IIa and SDA IIb that exactly reflect the percentage allocations of the Government budget to education and health respectively;
- d) divide the remainder equally between SDA IIc and SDA IId (both important facets of policy and institutional environment that do not readily correspond with specific items in the Government's budget).

Allocation of Uganda Aid Framework by PSA/SDA target

PSA/SDA Target	2003 / 04		2004 / 05		2005 / 06	
PSA Target 1: progress towards MDGs in SSA	HIGH CASE	BASE CASE	HIGH CASE	BASE CASE	HIGH CASE	BASE CASE
SDA IIa: education						
a. Budget support	11.5	9.2	12.7	10.4	13.4	11.2
b. Project support	2.8	2.8	0.0	0.0	0.0	0.0
SDA IIb: health						
a. Budget support	4.7	3.8	5.2	4.3	5.6	4.8
b. Project support	4.0	4.0	4.1	4.1	2.4	2.4
SDA IIc: economic/political governance						
a. Budget support	14.4	11.5	15.8	12.9	17.5	14.5
b. Project support	4.1	4.1	6.9	6.9	5.9	5.9
SDA IId: private sector climate/market access						
a. Budget support	14.4	11.5	15.8	12.9	17.5	14.5
b. Project support	9.1	9.1	5.1	5.1	2.7	2.7
SDA III: reduction in conflict						
a. Budget support	5.0	4.0	5.5	4.5	6.0	5.0
b. Project support *	1.9	1.9	0.6	0.6	0.6	0.6
Other project support #	3.1	3.1	3.3	3.3	3.4	3.4
Total budget support	50.0	40.0	55.0	45.0	60	50.0
Total project support	25.0	25.0	20.0	20.0	15.0	15.0
TOTAL RESOURCE BID	75.0	65.0	75.0	65.0	75.0	65.0

* not including resources for Uganda from Joint Conflict pool

Project support for poverty monitoring and humanitarian assistance

PART III – ANNUAL PLAN

F Monitoring the Impact of DFID Activities on Poverty Strategy Outcomes

1. A single common performance assessment framework already exists in Uganda in the form of the PRSC matrix, which is developed jointly by the World Bank, bilateral donors providing budget support, the Government of Uganda and civil society on an annual basis. There is also a common 'Governance matrix' developed with all donors and GoU which provides a focused framework for dialogue with the Government on the more complex governance issues that the World Bank have not felt should be included in the Poverty Reduction Support Credit. Both matrices focus on process points, are derived from the PEAP and support Ugandan-led processes of reform. Routines are in place to regularly monitor progress and update.

2. Since DFID activities focus on support for areas outlined in the matrices, DFID (U) will use the judgements from these institutionalised processes to monitor impact of activities on progress. Annex A outlines the PRSC prior actions as a change impact monitoring table: with DFID (U) activities against targets, and includes a number of additional process targets not included in the PRSC matrix, but focused on PSA/SDA areas and in which DFID (U) is engaged. Of particular note is the need to monitor activities undertaken in the area of harmonisation and coordination of donor activity, as identified in the comparative and gap analysis. DFID (U) will also assess overall country progress to PEAP outcomes on the basis of the Poverty Status Report (published biannually), and, in the interim years, through the Joint Staff Assessments of the Background to the Budget (otherwise termed PRSP Annual Progress Report).

G Implementing the Country Plan

1. The increasing focus on budget support requires an enhancement of skills and a change in techniques of "aid delivery" from project management to a deeper understanding of technical and political aspects of budgets and a new emphasis on policy dialogue, negotiation and influencing with partner governments. To help this new agenda, DFID (U) has moved to a stronger emphasis on team working, and is now organised in three 'Core Teams':

- (i) Better Service Delivery for the Poor
- (ii) Making Growth Work for the Poor
- (iii) Conflict Reduction, Rights and Pro-poor Politics
- (iv) Cross cutting issues (HIV/AIDS, environment, gender, M&E, and civil society) are mainstreamed throughout the three Core Teams, championed by an office focal person.

Core Teams are responsible for achieving PSA/SDA objectives through management of key entry points and activities, which are captured in the Core Teams' Log Frames, the ultimate goal of all of which is successful implementation of the PEAP. All staff members' Personal Development Plans are directly related to their leads on activities in the Log Frames. Staff achieve objectives through management of the financial resources, but more through support for Ugandan-led policy development and implementation processes; revision of the PEAP, monitoring and implementation of the PEAP, development of the Long-Term Expenditure Framework, performance of the Sector Working Groups and SWAPs, PRSC discussions, and reform of the public sector. This process will, however, need to be revised in the light of the PEAP revision to ensure that DFID (U)'s impact is properly focussed around the areas highlighted above and that there is sufficient focus amongst the team's activities.

2. UK based staff resources will be maintained at present levels. There will be a reduction in the number of project based staff principally in Commercial Justice (2), and Natural Resources (1), whilst at the same time DFID (U) will benefit from 50% of the time of a Regional Environmental Adviser based in London and the increased services of the Statistics Adviser based in Uganda as her activities with the UBOS are reduced. SAIC advisory resources will increase in line with the agreement to increase Ugandan voice within the team. The current A3 UK based Social Development Adviser post will be localised, an additional A3 level SAIC Conflict Adviser will be recruited to support implementation of the Conflict Management and Reduction Strategies and consideration given to localising the A3 Governance Post. The grading of the post of Deputy Head will also be reviewed. All these changes and potential changes are currently included in DFID (U)'s Total Operating Cost allocation. Training and Development continues to be undertaken at a regional and international level based on a comprehensive staff training and development plan that is updated and revised on an annual basis.

Annex A: Change Impact Monitoring Table: based on Tentative PRSC4 Prior Actions, PRSC matrix and Joint Donor-GoU Governance matrix

Annex B: Progress on PSA/SDA Targets