

Evaluation of EC Country Strategy: Uganda 1996-2000

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The authors accept sole responsibility for this report. This report does not necessarily reflect the views of the European Commission, which commissioned it.

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Preface

The Uganda Country Strategy Evaluation (CSE) has been carried out as one of a series of CSE exercises on EC assistance programmes worldwide, undertaken on behalf of the Evaluation Unit in the Joint Service for the Management of Community Aid to Non-Member Countries (SCR).¹

The recommendations are built on assessments of both the preparation and the implementation of the EC's strategy in Uganda. The findings and recommendations of this draft report were presented in Brussels on 4 December 2000, and the draft report was presented on 18 December.

The report is based on a mission to Uganda by Messrs. Jonathan Portes, Carlos Montes (joint team managers), Jan Dehn, Simon Groom, and Toby Wolfe that took place from 17 to 31 October 2000. The mission also benefited from the participation of Ms Renate Stuth, of the German Federal Ministry of Development Cooperation.

The evaluators carried out an extensive review of Delegation files, available mid-term reviews and evaluations, and interviews with Delegation staff, other donors, Government officials, and private sector and civil society organisations (68 interviews in total, Annex 2). The programme of evaluation activities followed the standard methodology applied in all previous country strategy evaluations. The report does not necessarily reflect the views of the European Commission.

This report would not have been possible without the collaboration of the Commission Delegation in Kampala and that of Ugandan Government officials, as well as the generous assistance of members of civil society and the private sector, to all of whom we are grateful.

Evaluation Directors EC Country Strategy Evaluations:

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The following Country Strategy Evaluations have been carried out by the Development Strategies/IDC team: South Africa, Senegal, Azerbaijan, Papua New Guinea, Dominican Republic, Turkmenistan, Mozambique, Uganda, Namibia and Burkina Faso. Copies are available on the evaluation unit website (currently at <http://europa.eu.int/comm/europeaid/evaluation/program>) and from the evaluation unit, European Aid Cooperation Office, European Commission.

¹ A CSE is meant to be forward-looking, contributing directly to the preparation of a new strategy.

List of abbreviations

| | |
|---------------|---|
| ASCIM | Adaptation and Strengthening of Current Implementation Mechanisms |
| BWI | Bretton Woods institutions |
| COMESA | Community of Eastern and Southern Africa |
| COREC | Coffee Research Centre |
| CPF | Counterpart funds |
| CSE | Country Strategy Evaluation |
| DENIVA | Development Network of Indigenous Voluntary Associations |
| DRC | Democratic Republic of Congo |
| EAC | East African Community |
| EC | European Commission |
| EDF | European Development Fund |
| EASF | Enhanced Structural Adjustment Facility |
| EIA | Environmental impact assessment |
| EIB | European Investment Bank |
| ESIP | Education Sector Investment Programme |
| FMO | Framework of Mutual Obligations |
| FSSP | Farming Systems Support Programme |
| GoU | Government of Uganda |
| HIPC | Heavily indebted poor countries |
| HoD | Head of Delegation |
| HRDP | Human Resources Development Programme |
| HRH | Human resources for health |
| HSSP | Health Sector Support Programme |
| IGG | Inspector General of Government |
| LGDP | Local Government Development Programme |
| MFPED | Ministry of Finance, Planning and Economic Development |
| MoH | Ministry of Health |
| MoWTC | Ministry of Works, Transport and Communication |
| MPCU | Micro-Projects Coordination Unit |
| MPP | Micro-Projects Programme |
| MS | Member State |
| MTEF | Medium-Term Expenditure Framework |
| NAADS | National Agricultural Advisory Services |
| NAO | National Authorising Officer |
| NARO | National Agricultural Research Organization |
| NEAP | National Agricultural Extension Programme |
| NFA | National Forest Authority |
| NIP | National Indicative Programme |
| NRA | National Resistance Army |
| NRM | National Resistance Movement |
| PAF | Poverty Action Fund |
| PEAP | Poverty Eradication Action Plan |
| PIU | Project implementation unit |
| PMA | Plan for the Modernisation of Agriculture |
| PRSC | Poverty Reduction Strategy Credit |
| PS | Permanent Secretary |
| RAFU | Roads Agency Formation Unit |
| RHP | Rural Health Programme |

| | |
|----------------|--|
| RIP | Regional Indicative Programme |
| RSDP | Road Sector Development Programme |
| SAF | Structural Adjustment Facility |
| SASP | Structural Adjustment Support Programme |
| SCR | Service Commun Relex (European Commission) |
| SIA | Social impact assessment |
| STDP | Smallholder Tea Development Programme |
| STRP | Smallholder Tea Rehabilitation Programme |
| SUFFICE | Support to feasible Financial Institutions and Capacity Building Efforts |
| SWURMP | South-West Uganda Road Maintenance Programme |
| TA | Technical assistance / technical assistant |
| UBTS | Uganda Blood Transfusion Service |
| UCDA | Uganda Coffee Development Authority |
| UDN | Uganda Debt Network |
| UPE | Universal Primary Education |
| UPPAP | Uganda Participatory Poverty Appraisal Process |
| UPC | Uganda People Congress |
| USh | Ugandan Shillings |
| UTB | Uganda Tourist Board |
| UWA | Uganda Wildlife Authority |
| WNHP | West Nile Health Programme |

Executive summary

This is the executive summary of the Evaluation of the EC's Country Strategy in Uganda for the years 1996-2000. It is a part of a series of Country Strategy Evaluations of EC aid.

The report is based on a mission to Uganda that took place from 17 to 31 October 2000. The mission involved an extensive review of Delegation files, available mid-term reviews and evaluations, and interviews with Delegation staff, other donors, Government officials and civil society organisations (68 interviews in total, see Annex2, p 71).

Ch. 1 focuses on the *relevance* of the EC's country strategy in Uganda. Key aspects of the country context are reviewed and used to assess the relevance of the EC's country strategy (before and during implementation). Ch. 2 looks at the *performance* of the EC's programme in Uganda, focusing principally on its impact on the EC's priority objectives. Ch 3. looks at key factors which *explain* this performance. Ch 4. presents *recommendations*.

1. Relevance of the strategy (p. 1)

Country analysis

1. **Political situation (p. 1)** Uganda has been stable and largely peaceful since the NRM took power. After the horrors of the first quarter century after independence, this is a major achievement. Basic human rights are now well entrenched and an independent civil society is beginning to develop. There is an impressive national consensus around the goal of poverty eradication. However, it is questionable whether the "Movement" system is sustainable in the medium term. Internal and external security remains a serious concern.

2. The quality of central policy-making is high, with a sophisticated budget and planning process. Initiatives such as the Poverty Action Fund (PAF) and the Poverty Eradication Action Plan (PEAP) are very important. Civil society organisations have begun to play a significant role in monitoring the implementation of the PAF. The government has also set in train an ambitious decentralization process.

3. The strong performance of the MFPED in policy formulation is not matched elsewhere in government or in service delivery. This is largely due to the substantial institutional problems – lack of capacity and corruption – in line Ministries

and in local government. These problems are in turn caused by a number of factors, including low pay, lack of performance management and incentives, lack of institutional controls and enforcement, the lack of a competitive political system, and the actions of donors themselves. Pay reform and strong action against corruption are urgently required and will necessitate strong political commitment from both government and donors.

4. **Economic situation (p. 9)** Uganda's macroeconomic performance over the past decade has been very good. Inflation is relatively low and stable. Trade liberalization has made Uganda one of the most economically open countries in Africa. The financial sector, however, remains weak. The HIPC initiative has led to a substantial reduction in Uganda's debt overhang.

5. These success have led to some reduction in poverty. However, living standards remain extremely low, and further progress will depend on the creation of an economic environment favourable to private sector led investment and growth. The government has developed a Medium-Term Competitive Strategy, which sets out an ambitious reform agenda. However,

implementation will require strong political commitment.

6. In addition, Uganda also faces the challenges of HIV/AIDS and environmental degradation. While Uganda has a very successful HIV/AIDS programme, the burden of the disease will remain huge for the foreseeable future. Meanwhile, rapid population growth will lead to a continued intensification of environmental pressures, and there is little evidence of a coherent strategy.

7. **Donors in Uganda (p.13)** The level of official development assistance is very high, at about 10% of GDP, comparable to total Government revenue. Government ownership of reform appears to be high. Donors are increasingly focusing on governance and corruption issues. A number of key donors are keen to move towards sector approaches, under which aid is channelled through the government budget, on the basis of a sector investment plan.

8. **Regional issues (p. 13)** Uganda, as a landlocked country, is heavily dependent on its neighbours. It participates in a number of regional trade arrangements, notably the East African Community and COMESA. However, these initiatives so far have had relatively little substantive impact.

Relevance of EC strategy to country needs (p. 14)

9. **Preparation of the strategy (p. 14)** The EC's 1996 strategy did not have a sound analytical base (in fairness, it should be noted that country strategies were at that time less central to the EC's policy-making process, and were thus accorded less time, importance and resources). There was little connection between the country analysis that was performed and selection of focal sectors for the EC. In particular, the EC's priority objectives were not well specified; and there was no analysis directed at demonstrating the relationship between objectives and strategy. Instead, the strategy largely represented continuity from the previous programme, subject to a politically driven imperative to focus on roads, which remained by far the largest sector of intervention. However, despite the

increased concentration in the transport sector, the program remained characterised by a multiplicity of relatively small interventions.

10. **Explaining the weakness of the strategy (p. 17)** The lack of analysis, inadequate justification of the choice of sectors and weak linkage to objectives reflect primarily the political and administrative constraints under which the strategy was prepared. Given that the overall allocation of funds was constrained by the political necessity to fund roads and by strong pressure to spread funds across a multiplicity of interventions, the result was largely predetermined.

11. **Adjusting the strategy (p. 17)** As a result of the problems described above, the strategy suffered from a lack of realism, especially in the road sector, as was recognized at the time. Roads projects in particular suffered serious delays. The EC was well aware from the beginning of these problems. However – again largely for political and bureaucratic reasons – the EC was unable of adjusting the strategy when this became apparent. The EC has begun the process of preparing its Country Support Strategy for the 9th EDF. This process is likely to be constrained by the weakness of the NAO Office and an over-burdened Delegation. The Commission seems not to be able to allocate significant resources for this important exercise.

The EC's programme (p. 21)

12. The 7th EDF NIP provided € 163 million. Stabex funds from the 7th EDF have amounted to € 174 million (including interest). Uganda also received € 52 million from the 7th EDF Structural Adjustment Facility (SAF).

13. In the 8th EDF, there was a significant increase in the size of the NIP, to € 210 million. So far, the country has become eligible for € 27 million of 8th EDF Stabex funds (1999 allocation) and € 41 million from the 8th EDF SAF. Funds from these last two sources are likely to increase. Indeed, a further € 75 million of SAF are in the pipeline. Funds from EC budget-lines totalled € 22.3 million between 1993 and 1998.

2. Performance of the EC's programme (p. 23)

The analysis focuses on 7th EDF interventions, and on the likely impact of 8th EDF interventions.

Governance and the rule of law (p. 23)

14. The EC Delegation has played a useful political role in representing the concerns of Member States, in particular those relating to democratisation, governance and armed conflict. However, the contribution of the EC programme to improvements in public administration has been very limited.

15. EC interventions have not in general contributed to budget transparency and accountability- and on occasion have undermined it. The location of the NAO office (and delays in project approval) has resulted in a poor integration of EC finance with the budget framework. Moreover, the complex use of Stabex, has limited transparency and accountability. A number of projects have experienced problems, e.g. 7th. EDF micro-projects, Human Resources Development Programme, support to the Ugandan Wildlife Authority. However, there is little evidence yet of a comprehensive and coherent EC anti-corruption strategy.

16. With the exception of the health sector, EC projects have contributed little to capacity building. The project with the most direct capacity-building component, the Human Resources Development Programme, was particularly unsuccessful both in planning and implementation. Similarly, budget support has not been adequately targeted to support civil service reform as yet. In other sectors, notably the road sector, lack of government capacity has hindered project implementation, but the EC has done little to improve matters.

17. Looking forward, the move to sector approaches should give the EC, the opportunity to have a greater impact on capacity-building; this is already the case in the education sector. Budget support also appears to be moving in this direction. However, a new programme to support human rights appears too fragmented.

Poverty reduction (p. 27)

18. Past EC projects did not have a strong poverty focus and are unlikely to have had a significant poverty impact. The overall reform program, supported by the EC, has had a significant poverty impact, but the EC's value-added was little. Successful projects in the health sector have likely had a positive impact, but elsewhere (education-HRDP, agriculture) most projects were either not focused on poverty in the first place, or failed to deliver. Stabex supported programmes were often poorly designed while micro-projects (7th. EDF) had poor financial management.

19. In the road sector, projects were largely directed at the richest areas of Uganda (as part of the Road Sector Development Programme); and were marked by long delays and large cost overruns. Project documents show little analysis of the likely poverty impact.

20. However, moves to EC participation in sector approaches, as is already the case in education, are likely to result in a significant improvement in the poverty impact of EC support. These approaches (together with a joint budget support) are to be fully integrated into the budget planning process and the overall development strategy based on the PEAP.

Environment and gender (p. 30)

21. There are no mechanisms within the Delegation for ensuring gender or environmental assessment of EC projects. Projects such as Farming Systems Support failed to take into account gender issues. Evaluations report significant difficulties in the past in a number of EC environmentally focused programmes (e.g. forestry support programme). This reflect a particularly weak policy and institutional environment.

3. Explaining the EC's performance (p. 33)

Strengthening institutions (p. 33)

22. **Central government (p. 33)** In common with other donors, the EC has not focused on the key cross-cutting institutional and governance issues such as civil service pay reform and corruption. The EC has not had a strategy for pay or civil service reform, in large part because the EC's focus on project support militates against an examination of such cross-cutting issues. Moreover, structural adjustment support was not adequately targeted to these areas.

23. Donors, including the EC, have actually contributed to weakening public administration by using semi-autonomous project management units and by recruiting Government officials to work in their own projects, through the use of salary top-ups as incentives or through consultancies. The extreme complexity of EC procedures and conditionalities has also had a negative effect on government institutions.

24. Similarly, past EC interventions have largely failed to focus on the key institutional issues within sectors:

- Roads: the broad policy framework is coherent, and a well articulated and internally consistent sector strategy has been developed. However, problems are now emerging with the strategy, and it may now be important for the EC to take an active role;
- Agriculture: Past interventions were highly fragmented and had no overall strategy to strengthen institutions in the sector. The way that Stabex funds were used contributed in particular to this problem. The sector ministry is particularly weak and it is doubtful that it will be able to implement the Programme for Modernisation of Agriculture effectively.
- Education: The Human Resources Development Program failed to take into account the weakness of the relevant Ministries; the role of the project implementation unit was in practice

also very damaging. However, the EC is playing a very active role in the successful Education Sector Investment Programme.

- Health: the Rural Health Program, as described above, was consistent with the government's overall moves towards decentralisation in the health sector and contributed to the development of capacity in this area. Overall, this program appears to be the one of the most successful of the EC's past interventions

25. Concentration on projects has meant that the institutional environment has often been neglected. The large number of excessively dispersed interventions – often financed via Stabex – has also contributed to this problem.

26. Looking forward, the EC needs to adapt more quickly to the general move to sector approaches, as it has successfully done in the education sector. For example, the EC should reconsider its support to the human resources program for health until the institutional environment is more settled.

27. **Civil society (p. 41)** The EC has had limited contact with civil society organisations in Uganda. There has been also little EC support targeted directly at strengthening civil society in Uganda. The EC's main contribution in this area (principally through the 8th EDF) is the Uganda Health Programme and recent micro-projects. It is expected that the EC will expand its support to civil society in the context of Cotonou.

Donor coordination (p. 42)

28. Uganda has a strong budget planning process. However, budget implementation and controls are weak, particularly in line ministries and districts, and the Aid Liaison Department in the MFPED - and the EDF unit and NAO office - is also very weak.

29. Uganda continues to be a country which a number of donors prioritise in their aid

programmes. In this context, while there are a number of coordination initiatives, and donor coordination has improved significantly in recent years, there is also a degree of donor competition.

30. In the past relations of the EC with some key donors have been very poor. However, in the last 2 years the EC has been more active in donor coordination. The World Bank has also improved somewhat its coordination, particularly in the formulation of the PRSC. However, problems remain. A number of bilateral donors believe that it is necessary to pressure the BWI into a more effective stand against corruption and defence expenditure. Work has begun on the adoption of a common approach for budget support and a common fund for technical assistance in the Ministry of Finance.

31. Education is the sector where coordination has improved most in the context of the Education Sector Investment Programme and joint Sector Reviews. The EC has also improved coordination in the agriculture and roads sector. However, this is complicated by the severe weakness of Government institutions. As regards to private sector development, the EC has not coordinated very effectively with other donors (e.g. micro-finance).

Commission resources and procedures (p. 48)

32. As in other countries, the EC's ability to engage in policy dialogue and donor coordination is constrained by the Commission's limited capacity and time-consuming administrative procedures. However, in Uganda the EC's common difficulties with resources and procedures have been exacerbated by decisions made regarding the use of EC aid instruments (particularly Stabex).

33. **Fragmented portfolio (p. 48)** The EC's project portfolio in Uganda has, particularly in the past, been fragmented, with many sectors, and a large number of small, often isolated interventions. The project-selection process is *ad hoc* rather than strategic. This has resulted in little EC influence at policy level and large administrative demands and

complexities in project-management. This in turn has limited the EC's ability to gain expertise in specific areas, and reduced transparency.

34. More recently, this fragmented approach is being modified. Moreover, the move to sector approaches has brought more focus to the EC portfolio, and is making it easier for staff to engage in policy dialogue and donor coordination.

35. **Lack of transparency (p. 50)** The EC portfolio in Uganda has lacked transparency, making project-management more complex. Portfolio has been fragmented, there has been limited dissemination of information (lack of annual reports and audits) and no clear rationale underlying the use of Stabex funds (see Court of Auditors report 1999).

36. In the agriculture and environment sectors, there are a number of problematic programmes which were originally funded through the NIP and for which Stabex funds have been used as 'bridging' finance to extend the life of the programme (e.g. support to coffee, tea, forestry and silk).

37. **NAO office (p. 52)** As a consequence of the poor integration of the Aid Liaison Department (of which the EDF unit forms a part) within the Ministry of Finance, EC aid lacks transparency within the Government's budgeting and monitoring system. Evaluations have reported that the capacity of the NAO office is low, and EC support has failed to strengthen it. Indeed, the Aid Liaison Department's has limited interaction with other donors and information flows with other departments in the Ministry of Finance are particularly weak. This weakens the integration of EC interventions. These difficulties are likely to be exacerbated by the EC provision of substantial allowances ('facilitation costs') to members of the Department.

38. **EC Delegation (p. 54)** The capacity of the EC Delegation was very low in the past, but has improved over the past two years. However, the workload is such that the Delegation staff is still focused on administrative procedures, and has little time for policy dialogue, analysis, donor coordination, or project monitoring.

39. The focus on administrative procedures is also reinforced by staff responsibilities that have been allocated mostly by project rather than by theme. There has been little team-work as yet, and each staff-member has been allocated a dispersed portfolio of projects. This has contributed to the centralisation of decision-making and information, which may limit the effectiveness of advisers. Because of the administrative burden of advisers, in a number of cases EC funded TAs have been involved in policy issues and donor coordination. This has created a number of problems (e.g. in micro-credit Suffice programme).

40. **Poor financial controls and implementation (p. 55)** As a result of the fragmentation of the EC's project portfolio, the lack of transparency, and the capacity constraints of both the NAO office and the EC Delegation, the managerial and financial controls on EC projects have been particularly weak, and there have been weaknesses at each stage of the project cycle.

41. In several projects this has been very disruptive, with some projects suspended for some period of time because of financial irregularities. Controls have been particularly weak for Stabex interventions and the micro-projects programme.

42. While the project preparation process has in many recent cases been thorough, there are a number of cases where project impact has been significantly reduced by

weaknesses in project design (e.g. SASP, roads programme Kampala bypass and small holder tea).

43. Delays in both programming and implementation have limited the impact of projects, and have also reduced their relevance (e.g. SWURMP). Long delays between project preparation and implementation have in some cases resulted in situations where consultants' studies have become inappropriate by the time of implementation because of changes in the policy or institutional environment (e.g. Human Resources for Health, SASP 2). This problem is exacerbated by the reluctance of the EC and Member States to allow much flexibility in project design.

44. **Weak learning systems (p. 66)** While a number of project evaluations have been carried out, there has generally not been systematic use of tools for learning, either at the level of the overall programme (annual reports, country reviews, and general analytic work) or at project level (monitoring, evaluations, audits).

Summary of EC performance by sector (p. 62)

45. This section summarises in tabular form the discussion in Chapters 2 and 3. Overall the assessment is mixed to poor, with health and (recently) education standing out as sectors with relatively good records.

4. Key recommendations (p. 63)

These recommendations (to help prepare the Country Support Strategy) take into account the Cotonou Agreement and its emphasis on good governance, on a new partnership that embodies the participation of civil society, and on poverty reduction as the central objective of the new partnership. They also take into account the Commission's guidelines on the 9th EDF programming process. It should also be noted that some of these recommendations are already being implemented, while others require action on the part of other parties as well as that of the Delegation itself.

46. **Ensuring relevance of the strategy (p. 63)**

EC strategy should focus on two principal objectives: first, the reduction of poverty; and second, good governance, including improvements in public administration and anti-corruption actions.

47. The strategy should show clearly, based on analysis, how proposed interventions are linked to objectives, and should be capable of readjustment in changed circumstances. It should include a 'base case' and a 'high' case financial scenario linked to benchmarks to assess Govt. progress on reduction of poverty and good governance and performance of EC interventions in contributing to these objectives.

48. The strategy should include systematic and transparent consultations with different elements of civil society (integrated with consultations on the PEAP).

49. **Increasing the focus of EC aid (p. 64)**

Most EC support should be channelled through sector wide programmes. The EC should also develop – in conjunction with other donors – a more strategic view of sector approaches, covering issues such as the role of conditionalities, earmarking and auditing.

50. The EC should avoid as much as possible project support. The EC's record in Uganda shows that given current constraints, the EC has many difficulties in supporting projects successfully. New projects should only be considered if there is a clear and compelling case that they will contribute to primary objectives, and capacity exists to manage them properly (e.g. roads sector).

51. The EC aid programme should be focused in a small number of narrowly defined areas. Staff resources are needed to monitor public administration reforms, to integrate consideration of cross-cutting

issues, and for consultation with civil society and other donors.

52. **Suggested approach to different sectors (p. 64):**

- **Budget support** should be based on conditionalities and timetables jointly agreed with the BWI and other key donors.
- **Roads.** There is a case for continued EC support to the roads sector. However, in advance of considering financial support for any new projects, the EC (together with other key donors) should focus on institutional development and capacity-building.
- **Health.** The EC should reconsider its proposal to provide financial support for the Human Resources for Health project. Instead, the EC should join other donors in providing technical and institutional support to the development of the HSSP. The EC should then provide financial support in the context of a sector approach.
- **Education.** EC should continue its successful support to the ESIP-as budget support- and its focus on the auditing of education sector funds.
- **Agriculture and forestry.** The EC should reconsider its involvement in the agriculture sector. Given the poor record of past project support, the EC should only consider joint donor financing in this sector.
- **Private sector.** There is a strong case for reconsidering independent support in this area. Co-financing of other donors' interventions is suggested.

53. The EC (together with other donors) should make budget support conditional on progress on a number of key cross-cutting

issues, including pay reform, corruption, and monitoring and accountability.

54. **Governance and civil society (p. 65)** The EC should take the lead in pressing for political reform and democratisation.

55. The EC should design and implement a strategy to strengthen civil society. The EC should provide financial support to relevant civil society organisations through intermediary funding organisations.

56. The EC should support (jointly with other donors) efforts to improve the monitoring and accountability of public expenditure. This would include support to public expenditure monitoring and tracking studies and service delivery studies. The EC should also support an expansion of the role of civil society in monitoring public expenditure.

57. **Improving aid coordination practices (p. 66)** The EC should support a joint approach to budget support (see above), sector-wide approaches, and should discourage the use of project support wherever practicable.

58. EC should only provide institutional support to Govt. departments as part of joint pools for technical assistance. Jointly with other donors, the EC should be transparent on salary supplements paid from donors to Government officials. In conjunction with the adoption of pay reforms these supplements should be phased out.

59. The EC should promote a culture of openness among donors. It would be desirable, for example, that relevant sector information should be published in a web-page up-dated by the sectoral lead donor.

60. **Resources and procedures (p. 66)** Incentives of Commission staff should be focused on the quality and sustainability of interventions. Commission staff should be appraised as far as possible on the basis of their contribution to the success of the overall country strategy, and on the quality and sustainability of individual EC interventions.

61. Delegation should make greater use of teamwork and cross-cutting working practices. This would also help in the important task of mainstreaming poverty,

governance, gender equality and environmental issues. Individual advisors could be given greater autonomy and decision-making powers.

62. As part of the Commission reorganisation, procedures should be simplified. Headquarters should not only give more discretion to the Delegation, but positively require the Delegation to take decisions and accept responsibility for them, while holding the Delegation to account for the results achieved by performance targets and ex post audits.

63. The EC should reinforce specialist skills in Delegations and provide Delegations with rapid funds to support their own technical capacity (including non-project support).

64. EC should appoint a programme administrator in the Delegation to focus on financial management, with responsibility for monitoring (including performance) and timeliness and quality of financial and/or operational audits, mid-term reviews and final evaluations.

65. EC should strengthen capacity by promoting the pooling of technical staff with Member States and other donors (e.g. as it begins to happen in sector programme work).

66. The Delegation should introduce an informal quality support group. This group could include not only Delegation staff but also experts from outside the EC.

67. The EC and other donors should support Govt. efforts to improve its Aid Liaison Department (and reform the NAO office and EDF unit). The NAO office should be restructured and brought fully within the normal internal processes of the MFPED. Salary supplements to Government staff in the NAO office should be phased-out.

68. **Learning processes within the Commission (p. 67)** The EC should carry out (jointly with other donors) analytical work which is not directly linked to the preparation of new projects.

69. EC should reinforce independent monitoring and evaluation, and carry-out systematic audits of its interventions. EC should look for the participation of civil society and other donors.

Table of evaluators' recommendations

A) Ensuring relevance of the strategy:

- i. The EC's strategy objectives should focus on poverty reduction and good governance.
- ii. The strategy should show how proposed interventions are linked to objectives and flexibility should be built into the strategy.
- iii. The strategy should be closely linked to trigger actions in institutional reform (e.g. including anti-corruption actions) and in the Government's focus on poverty.
- iv. The EC strategy should include systematic consultations with different elements of civil society (as in PEAP consultations).

B) Increasing the focus of EC aid:

The EC should avoid as much as possible project support and use instead sector wide programmes.

- i. Budget support should be based on conditionalities and timetables jointly agreed with the BWI and other key donors. Conditionalities should be based on progress on key crosscutting issues: pay reform, corruption, and monitoring and accountability.
- ii. EC should continue its important support to the education sector investment programme and its focus on the auditing of education sector funds.
- iii. In advance of considering financial support for any new projects in the roads sector, the EC should focus on institutional development and capacity building.
- iv. The EC should reconsider its proposal to provide support for human resources for health project (e.g. EC should work instead on the health sector programme).
- v. the EC should reconsider its support for agriculture and for the private sector.

C) Donor coordination: :

- i. The EC should support a joint approach to budget support (see above), sector wide approaches, and discourage the use of project support.
- ii. The EC should only provide institutional support to Govt. Departments as part of joint pools for technical assistance. There should be transparency on salary supplements paid by donors to Govt. officials. In conjunction with the adoption of pay reform these supplements should be phased out.
- iii. The EC should promote a culture of openness among donors, for example, relevant sector information should be published in a web-page up-dated by the sectoral lead donor.

D) Resources and procedures:

- i. Delegation should make greater use of teamwork and cross-cutting working practices. Individual advisers could be given greater autonomy and decision-making powers.
- ii. EC should reinforce specialist skills in Delegations and provide the Delegation with rapid funds to support their capacity. Delegation should introduce an informal quality support group.
- iii. As part of the EC reorganization, Headquarters should give more discretion to the Delegation, requiring the Delegation to take decisions, while holding the Delegation to account for results (using performance targets and ex post audits).
- iv. EC should appoint a programme administrator in the Delegation to focus on financial management, with responsibility for monitoring and timeliness and quality of financial and/or operational audits, mid-term reviews and final evaluations.
- v. The EC and other donors should support Govt. efforts to improve its Aid Liaison Department (and reform the NAO office and EDF Unit). The NAO office should be restructured and brought fully within the normal internal processes of the MFPEP. Salary supplements to Govt. staff in the NAO office should be phased-out.
- vi. Introduce systematic monitoring and evaluation, including rigorous audits –by internationally accredited companies when necessary- of all key interventions, with participation of other donors and civil society.

1

Relevance of the strategy

The first part of this chapter reviews key aspects of the political, economic and social context in Uganda, including the general role of all donors. The second part is an assessment of the relevance of (and constraints on) the EC's strategy in this context before implementation.

A. Country analysis

Key characteristics of Uganda are reviewed to identify factors which should underlie the EC's strategy choices. The analysis includes both factors which were present when the last Country Strategy Paper was prepared (1996), as well as more recent developments.

Political situation and governance

Uganda has been stable and largely peaceful since the NRM took power, this is a major achievement. Basic human rights are now well entrenched and an independent civil society is beginning to develop. However, it is questionable whether the "Movement" system is sustainable in the medium term.

While the quality of central policy-making is high, there are substantial institutional problems – lack of capacity and corruption – in line Ministries and in local government. Pay reform and strong action against corruption are urgently required and will necessitate strong political commitment from both government and donors.

Political situation

Uganda gained its independence from Britain in 1962. The first President, Milton Obote of the Ugandan People's Congress, was overthrown in 1971 by Idi Amin. Amin's rule was characterised by misgovernment at every level, combined with egregious human rights abuses. In 1979 he invaded Tanzania; the Tanzanians repelled the invasion went on to enter Uganda and overthrow Amin. Elections were held in December 1980. The ruling military council declared that the UPC had won, and Obote was reinstalled as President.

Almost immediately, new reports of human rights abuses emerged. In 1986 the NRA took power. Museveni ascribed a significant portion of the blame for Uganda's troubles since independence to the introduction of multi-party democracy in a society which was not ready for it. Under the "movement" or "no-party system", enshrined in the 1995 constitution, the NRA transformed itself into the NRM. In structure the NRM has some features in common with a traditional one-party state, with a formalised structure, some direct links to state organs, and with some funding from the government budget. Meanwhile, Article 269 of the constitution bars political organisations from opening and operating branch offices, holding conferences or public rallies or sponsoring candidates. However, in contrast to the one-party model, elections are multi-candidate, free and relatively fair, and there is no obligation for candidates to pledge loyalty to the Movement.

Museveni won the first Presidential election under the new Constitution in 1996. A referendum in 2000 overwhelmingly supported the movement system, although turnout was

under 50%. While supporters of the multiparty system argued that the referendum question and the financial and campaigning provisions of the referendum were biased against them, the referendum itself is generally agreed to have been free and fair, and donors and the international community have generally accepted the result.

Parliamentary and Presidential elections are scheduled for 2001. There are internal tensions within the Movement, with some pressing for moves towards more political openness.

Internal and external security remains a serious concern. In the North, the Lord's Resistance Army continues to wage a low-intensity war. While not a serious military threat, the LRA is a severe constraint on development in the affected region, with more than half a million people internally displaced to "protected villages".

Meanwhile, Uganda's military involvement in the Democratic Republic of Congo continues. The prospects for an early resolution and withdrawal of Ugandan troops from DRC are not good. Ugandan involvement in the DRC seems to be quite unpopular, with the press and many politicians and businessmen calling for withdrawal (including many elements that generally support the government), but the conflict serves the interests of powerful forces in the army.

Civil Society

Ugandan civil society remains relatively weak. However, there is a large and growing number of NGOs and community-based organisations active across a wide range of fields, including both service delivery organisations and 'watchdogs' on governance and human rights, and there is a lively and critical press. The Development Network of Indigenous Voluntary Associations (DENIVA) groups some 500 NGOs. However, interviews indicate a number of weaknesses of civil society groups: a degree of dependence on donors and international NGOs, and a tendency to centralisation in Kampala. Donors and the private sector are only beginning to relate to civil society organisations.

While there is some government control over NGOs and there was some controversy when the Government placed restrictions on the registration of the National NGO Forum, in general NGOs are free to organise and advocate policy positions (as long as they do not become "political parties").

One impressive feature of Ugandan civil society is the visible national consensus around the goal of poverty eradication. This overarching objective runs through government planning (see below) and is widely shared outside government. This has been facilitated by the innovative participatory processes used to draft the Poverty Eradication Action Plan (PEAP) and to monitor the Poverty Action Fund (PAF):

- The Uganda Participatory Poverty Appraisal Process (UPPAP) is a 3-year programme (1998-2001) assessing the nature and extent of poverty through a detailed survey in a number of districts across the country. The findings of the UPPAP have fed into the revision of the PEAP. The UPPAP is implemented by Oxfam in coordination with a number of other NGOs;
- As an input into the process of revising the PEAP early this year, a number of civil society organisations (coordinated by the UDN) held consultations across all regions of the country, and presented their recommendations. (See Box.)
- Civil society organisations have begun to play a significant role in monitoring implementation of the PAF. Monitoring committees have been formed at district level which, through a National Civil Society Steering Committee, submit detailed

monitoring reports to the quarterly review meeting of donors, the Ministry of Finance and civil society.²

More generally, new opportunities for the participation of civil society organisations are arising in connection with decentralisation.

Regional consultations on the PEAP

A series of 10 regional consultation meetings were held in March-April 2000 on proposed revisions to the PEAP. The output of these consultations was a report that was submitted to the PEAP drafting team in the MFPED.

The consultations were coordinated by a Taskforce of 10 national and international NGOs. Over 600 representatives of civil society were invited to the consultations, from almost all districts of the country. Interviews indicate that the organisers would have liked more time, to have allowed the consultations to be more inclusive, but were otherwise generally satisfied with the process.

Recommendations were made across all areas of the PEAP, and focused on combating corruption, reducing military involvement, increasing access to credit and agricultural information, and making policies more gender-sensitive. Organisers feel that they did have some impact on the PEAP, and expect to be involved in the annual revisions promised by the Government.

Sources: Interviews, and Civil Society Regional Consultations: Revision of the Poverty Eradication Action Plan: Final Report, April 2000.

Human rights³

Freedom of speech, religion and movement are reasonably secure (though some cases of harassment of journalists are reported). Political rights are less secure: as noted above, while there are regular elections (regarded as free by observers), the Movement system places severe constraints on the activities of political parties.

Other alleged abuses of human rights are linked to the judicial system and the security forces. In addition to the continued use of the death penalty, extra-judicial killings and torture are reported. Arbitrary arrest is a problem, and prison conditions are very harsh. The pursuit of justice is hindered by widespread corruption in the police and judiciary.

Many of the worst human rights abuses have been committed by rebel groups, in particular the LRA in the north and the ADF in the west.

The Government has established a Human Rights Commission. While it has been active in its areas of competence, its independence is questioned by some observers and its remit is limited by the Constitution (e.g. it is unable to question the Movement system). There are a number of active human rights NGOs, which are allowed to operate freely, though civil society groups linked to political opposition are heavily restricted.

The country ratings published by Freedom House label Uganda as "partly free". On scales from 1 to 7 (where 1 is the most free), in the year 1999-00 Uganda rated 5 for political rights and 5 for civil liberties. This represents a deterioration from the preceding 3 years (1996-97 through to 1998-99) when Uganda rated 4 for political rights and 4 for civil liberties.

² See, for example, Draft Report of the Poverty Action Fund Monitoring Exercise, May 2000, available on the web-site of the Uganda Debt Network, www.udn.or.ug

³ Sources: U.S. Dept. of State, *1999 Country Reports on Human Rights Practices: Uganda*, February 2000. Foundation for Human Rights Initiative, *The Human Rights Reporter 1999*, Kampala, 2000. Human Rights Watch, *Hostile to Democracy: The Movement System and Political Repression in Uganda*, 1999.

Public administration

Uganda's budget and planning process at central level, led by the Ministry of Finance, Planning and Economic Development (MFPED), is remarkably sophisticated. The MFPED is responsible for the production of a large number of well-written and comprehensive policy documents, including both those produced by the budget process and others such as the Plan for the Modernisation of Agriculture and the Medium Term Competitiveness Strategy.

As a consequence, it has developed a strong corporate ethos and has become the main point of contact for donors. However, the strong performance of the MFPED in policy formulation is not matched elsewhere in government or in service delivery. Most interviewees were of the view that this was a major constraint both on the effective use of aid and on development more generally.

Essentially, these problems fall under two broad, but related, headings:

- *Capacity constraints.* Civil service capacity in line Ministries is of variable quality at best. Some key Ministries (and local governments) were described by donors as having minimal capacity. Meanwhile, the strong policy capacity of the MFPED does not extend to a similar capacity for the more basic Finance Ministry tasks of the monitoring and auditing of public expenditure.
- *Corruption.* A number of reports, as well as considerable anecdotal evidence, suggest that corruption is endemic in Uganda.⁴ This is true both at the macro level (for example the privatisation process has been marked by a number of questionable transactions)⁵, and at the micro level in local service delivery. Surveys suggest that the majority of firms pay significant bribes.⁶ One recent estimate of the monetary value of corruption, based on reports by the Auditor General, was US\$215 billion (about 140Mecu) for one year alone (approximately 2 percent of GDP or 20 percent of tax revenue).⁷ The IGG is currently investigating 4,000 complaints a year; the most common complaint is non-payment of salaries. A number of interviewees said that corruption was, if anything, getting worse. This is also found by the Transparency International index of corruption which fell from 2.7 to 2.2 over a 4-year period.⁸

These governance problems in turn have two broad implications:

First, on the quality of policy formulation in line Ministries. Sector plans play the key role in linking the budget and the overall development process. The development of such plans therefore places considerable weight on the planning and policy capacity of the line Ministries, rather than the MFPED. If they are not able to fulfil this, the entire development strategy will be compromised. In frustration, donors (and sometimes the MFPED) attempt to bypass the line Ministries, either by setting up self-contained project units or by attempting to centralise policy-making in the MFPED; but this is likely to be inefficient and unsustainable.

⁴ For example, a 1998 World Bank mission "found evidence of corruption in revenue collection, public procurement, the public payroll, service delivery, the regulatory framework, privatisation, utilities, the financial sector, the legal and judicial systems, politics, and the military." (cited in Uganda Country Assistance Evaluation, June 26, 2000, World Bank.)

⁵ In August 1998, the privatisation program was suspended while a Parliamentary committee investigated certain transactions. The privatisation of Uganda Commercial Bank, in particular, collapsed as a result of serious fraud, resulting in substantial costs to the government.

⁶ Svensson, J. (2000), "The Cost of Doing Business: Firm's Experience with Corruption in Uganda." Africa Region Working Paper Series, No. 6. Washington, DC: The World Bank.

⁷ Preliminary calculations by the Uganda Debt Network.

⁸ From the 1996 survey (covering 1993-96) to the 2000 survey (covering 1998-2000). See www.transparency.org/documents/index.html

Second, on service delivery. The government recognises that the effect of poor governance on service delivery are “multiple and substantial”.⁹ The PEAP identified key problems as including:

- low-level corruption: accepting or demanding bribes, diverting of materials such as drugs,
- absenteeism or lack of mobility of the service (particularly in agriculture)
- shortage of qualified staff
- an arrogant attitude towards service users.
- outright violation of service users’ human rights (unlawful imprisonment, assault, rape)

The problems in Ugandan public administration are deep-rooted and multi-causal, and any strategy to address them must take account of that. Among the structural factors likely to lead to corruption and capacity problems are the following:

- low pay. Public sector salaries are estimated to be approximately 45% of external market comparators.¹⁰ This is a particular problem with middle managers, especially those with badly needed qualifications like accounting skills, and those in key service delivery sectors.
- lack of performance management/incentives. The Ministry of Public Service is in the process of introducing a performance appraisal system, but it is not clear how, if at all, it will be linked with pay.
- lack of institutional controls (monitoring and accounting). Government capacity for monitoring and auditing is extremely weak (in part because of the low pay for qualified staff); and current procedures do not necessarily go beyond simply monitoring process and bureaucratic activities, rather than outputs and outcomes.¹¹
- lack of institutional enforcement (courts and police). While the Inspector General of Government (IGG) receives thousands of complaints of corruption, very few successful prosecutions are brought.
- The relative weakness of civil society in rural areas; since most service delivery, and hence petty corruption, takes place at the district level or below, it is necessary for monitoring and accountability to take place at these levels also.
- The lack of a competitive political system has a number of implications. The “individual merit” system may often mean in practice that both political competition through elections, and post-election coalition formation, takes place on the basis of “pork barrel” politics rather than ideology. And in many areas there may be little practical alternative to those in power, even if they are incompetent or corrupt.
- Finally, donors themselves must take some of the blame for undermining capacity and facilitating corruption. Recent World Bank research shows that “higher aid levels erode the quality of governance, as measured by indexes of bureaucratic quality, corruption, and the rule of law”.¹² This is observable in Uganda in a number of areas: the very high levels of extra budgetary project aid facilitates corruption,

⁹ Poverty Eradication Action Plan, Ministry of Finance, Planning and Economic Development, Kampala, July 2000

¹⁰ KPMG survey

¹¹ Strengthening National Monitoring and Evaluation in Uganda, Arild O. Hauge, OED, World Bank, September 2000.

¹² World Bank Policy Research Working Paper no 2396, Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis, Stephen Knack, July 2000.

while the payment of top-up allowances to civil servants and the reliance on autonomous project implementation units undermines capacity.

There is now a widespread consensus that the quality of governance is extremely important for economic growth and poverty alleviation in developing countries.¹³ It was a major topic of discussion at the Consultative Group meeting in Kampala in March 2000. Both donors and government have begun to focus on these issues. Action is required in a number of areas to address the structural factors described above:

- pay reform. Pay reform has been recognised as a key issue in improving the performance of the public sector for some time, but conflicts between MFPED, the Ministry of Public Service, and line Ministries have hindered the development of a workable strategy. As a result, little has so far been achieved and even now progress remains elusive;
- improving financial management and accountability,
- improving monitoring and evaluation, and crucially translating this into the decision making process.¹⁴
- improvements to procurement procedures;
- reforms in the legal sector to speed up the administration of justice, improve contract enforcement and impose meaningful sanctions for corruption.
- On the part of donors, action to ensure that aid promotes rather than hinders progress in improving the quality of governance, in particular by paying much greater attention to institutional capacity-building.

A strategy to address many of the key issues is outlined in the policy matrix that accompanies the World Bank's proposed Poverty Reduction Strategy Credit (PSRC).¹⁵ However, this is better developed in some areas (e.g. procurement reform) than others (action against corruption). In any case, what is needed now is consistent progress on implementation at all levels of government; and a strong political commitment to take the sometimes difficult measures necessary.

More broadly, improving governance requires the creation of a culture of transparency and accountability. This cannot be done by government (or donors) alone, but requires the active involvement of civil society. There are some promising signs in this direction – for example, the local monitoring of funds disbursed through the PAF undertaken by the Uganda Debt Network and other associated NGOs – but there is a long way to go.

The Budget and planning process

Uganda's overall development strategy is based on the Poverty Eradication Action Plan (PEAP). The PEAP is the over-arching national planning document, placing poverty eradication as the fundamental goal of the Government. It provides a framework for the development of detailed sector-wide plans and investment programmes.¹⁶ A number of such plans have already been developed (the Ten Year Road Sector Development Programme, the Education Strategic Investment Plan, the Health Sector Plan and the Plan for the

¹³ On the link between corruption and growth, see *The Quality of Growth*, V. Thomas et al., World Bank, August 2000. For recent research on governance, see the World Bank web-site www.worldbank.org/wbi/governance.

¹⁴ *Strengthening National Monitoring and Evaluation in Uganda*, Arild O. Hauge, OED, World Bank, September 2000.

¹⁵ *Aide Mémoire of the PSRC pre-appraisal mission*, World Bank, October 2000.

¹⁶ As set out above, the PEAP and sector plans also incorporate the results of consultation with civil society.

Modernisation of Agriculture) while others are underway (in the energy sector, the water sector and the justice sector.) Since many service delivery functions are performed at local level, the sector plans should in principle provide a framework for preparation of district plans; progress has been slower on these.

The other side of the planning process is the budget. Here the key overarching element is the Medium Term Expenditure Framework. The objective of the MTEF is to coordinate the allocation of all public expenditure – including donor funds - in a framework that ensures consistency of sectoral and district expenditure levels with the overall resource constraints. The MTEF sets sector and district spending ceilings within a rolling three-year framework (the first year being the annual budget), taking into consideration the macroeconomic environment and prospects for revenue mobilization.

Clearly the key element in this process is the relationship between the MTEF and the PEAP. The link between the two is the sector investment plans. In principle, they should both reflect the government's overall development strategy, as set out in the PEAP, and be consistent with the resource constraints embodied in the MTEF. In practice, the extent to which this is the case varies between plans; for example, the ESIP is relatively far advanced, while the PMA has as yet virtually no detail about the expenditure implications.

The Poverty Action Fund

A further complication in the budget process is the Poverty Action Fund (PAF). The PAF is a portion of the budget earmarked for specific poverty-reducing expenditures including primary education, primary health care, agricultural extension, feeder roads, water/sanitation. It serves a number of different purposes:

- it was created to “ring-fence” HIPC debt relief for basic services in 1998;
- because of the political attractions of this mechanism, it has attracted additional earmarked donor funding. It has thus become a way for donors (including the EC) to provide what is effectively budget support, while being assured that the incremental expenditures will go to poverty reducing services;
- it has become a vehicle for enhanced monitoring (both by government and civil society) of expenditures at district level (see the discussion of decentralisation).

The continuing utility of the PAF is now a topic of debate within the MFPED and the donor community: while it has been highly successful both in political terms (both inside Uganda and in donor countries) and in reallocating expenditures to priority areas, it is also potentially distorting. Distortions could occur in a number of ways:

- first, expenditures might be devoted to areas simply because they were within the PAF, even if they were not necessarily the highest priority;
- second, line Ministries may try to “game” the PAF by lobbying for their particular priorities to be included within the PAF;
- There is also obviously a risk that donors and government will concentrate monitoring and control efforts too much on the PAF, and not enough on the rest of the budget;
- The PAF has led to a profusion of “conditional grants” to districts; this is discussed in the section on decentralisation, below.

For the political reasons stated above, the PAF is likely to remain; however, its influence on resource allocation is likely to diminish. The challenge will be to extend the PAF approach – in particular the poverty focus and the enhanced monitoring provisions – across government. It will also be important to resist pressures for other forms of ring-fencing, which would

further complicate the system without offsetting advantages - proposals for an earmarked “Road Fund” are likely to fall into this category.

This overall process is impressive both in design and in intermediate outputs; the PEAP and sector plans are well-written, comprehensive and coherent. However, given the serious shortcoming in public administration described above, considerable doubt remains as to the degree to which the sophistication of this process is actually reflecting in final outputs (let alone outcomes). The perceptive conclusion of a recent review is worth quoting: *“The State budget and planning system in Uganda on the national level is elaborate and advanced by most standards... It remains doubtful, however, how much actual effect many of the processes have on overall budget outcomes and actual resource allocation. The Ugandan budget seems over-determined and over-planned since the apparatus to implement all the planning and considerations out in the districts simply is not there. A general observation in Uganda is therefore that the attention of the core ministries needs to be shifted from elaborate planning to down to earth implementation, reporting and accounting.”*¹⁷

Decentralisation

Uganda has embarked on an ambitious program of decentralisation, formalised in 1997 legislation. Decentralisation has changed the functions of central Ministries, removing most of their responsibilities for service delivery (e.g. health and education); districts are responsible for feeder roads and will play a key role in the implementation of the PMA. Local government receives most of its funding from central government, via unconditional (block) grants and 20-odd separate conditional grants for particular services (some of which are within the Poverty Action Fund and are thus subject to special reporting procedures). Some donors also fund districts directly.

The key problem with decentralisation has been governance at local level. While districts vary widely, there is considerable corruption and maladministration at local level. A World Bank study found that in 1991-95 only 30% of the capitation grants meant for schools actually reached them.¹⁸ Although a more recent study suggests that matters have improved considerably in the education sector, the quality of local administration remains poor.

The central government response to this has been the creation of conditional grants hypothecated to particular items of expenditure, and disbursed only subject to certain monitoring requirements. In particular, grants under the PAF are disbursed on the basis of annual workplans and quarterly reporting. However, this process appears to be rather formalistic. There is some evidence that the profusion of conditional grants and reporting requirements places an excessive burden on local governments and line Ministries.¹⁹

This may in turn undermine local capacity – ironically in view of the fact that the lack of local capacity was precisely the reason the conditional grants were instituted in the first place. The decentralisation process appears to be following a typical pattern of central-local relations, that is, the political decision to decentralise is not matched by the centre faith in the capacity of local government; this leads to the imposition of onerous conditions on central government financial support to local government, which in turn inhibits local capacity building.

¹⁷ Public Financial Management Issues in Uganda, Joint Review, Commissioned by NORAD, Sida and Danida, June 2000

¹⁸ Policy Research Working Paper 1926. “Do Budgets Really Matter? Evidence from Public Spending on Education and Health in Uganda”, Emmanuel Ablo and Ritva Reinikka, World Bank, June 1998.

¹⁹ “one of the clearest observations of the study is of the proliferation and confusion of funding arrangements [for local govt]...the majority of stakeholders interviewed all admitted to a general confusion and bewilderment with the diversity of mechanisms through which central government funds local government.” Decentralisation and central local funding mechanisms in Uganda: Report for Danida, Philip Amis, October 2000

In part, this phenomenon is a structural consequence of the relatively small proportion of revenue raised at local level. Recent research by the World Bank concluded that “the delinking of taxing and spending decisions leads to lack of accountability in the public sector”. Given the necessity for considerable fiscal transfers, however, “properly structured (simple, transparent, consistent with objectives) fiscal transfers can improve government accountability.”²⁰ The description above suggests that this is not yet the case, and simplicity and transparency should be prioritised over the introduction of still more conditional grants subject to still greater monitoring requirements.

Economic situation

Uganda’s macroeconomic performance over the past decade has been very good, and has led to some reduction in poverty. However, living standards remain extremely low, and further progress will depend on the creation of an economic environment favourable to investment and growth. In addition, Uganda also faces the challenges of HIV/AIDS and environmental degradation.

Macroeconomic situation

Uganda has a population of about 21 million, currently growing at 3 percent a year. The economy is dominated by agriculture, which represents more than 40% of GDP; manufacturing is less than 10%. Principal agricultural products are coffee (which also represents more than 60% of exports); other significant exports include fish, fruit and vegetables, and (intermittently) gold²¹.

Uganda’s macroeconomic performance over the last decade has been among the best in Africa. Real GDP growth has averaged close to 7 percent per year, although to a large extent this represents post-war recovery. Macroeconomic stability has been impressive: inflation, which was running at about 25% at the beginning of the decade, has been under control for a number of years, and is currently about 5 percent. The budget is financed by a large inflows of donor aid. However, while the revenue/GDP ratio rose steadily in the first half of the 1990s, it now appears to have stagnated at about 11.5%; this reflects not so much low tax rates but inefficiency and corruption in the Ugandan Revenue Authority.²² This compares unfavourably with the sub-Saharan average of about 16%.²³

Substantial microeconomic reform has taken place. Trade reform has made Uganda one of the most open countries in Africa. Foreign exchange markets have been liberalised, and agricultural marketing boards – most importantly coffee – have been abolished. There is no state intervention in the production or marketing of goods. However, privatisation and the restructuring of state-owned enterprises has proceeded more slowly, and loss-making enterprises are still a considerable drain on the budget. The financial sector – which saw the most controversial and questionable privatisation, which subsequently had to be reversed – remains particularly weak. Uganda has one of the lowest ratios of financial assets to GDP in the world.²⁴

²⁰ World Bank Policy Research Paper 2021, “Balance, Accountability, and Responsiveness: Lessons about Decentralization”, Anwar Shah, December 1998.

²¹ Uganda does not produce gold; it is smuggled in and re-exported.

²² The National Integrity Survey (1998) found that the URA was one of the most corrupt government agencies.

²³ Economist Intelligence Unit, Country Report Uganda, August 2000.

²⁴ International Monetary Fund, “Uganda: Selected Issues”, Staff Country Report 99/116, October 1999.

There has been a significant reduction in the country's debt overhang, resulting from the Heavily Indebted Poor Countries (HIPC) initiative.

However, growth has slowed substantially in the current year, largely as the consequence of a severe terms-of-trade shock; the coffee price is at an 8-year low, while oil prices have risen sharply.

In summary, while Uganda has made considerable progress, it faces a number of challenges. In the short term, hard-earned macroeconomic stability must be preserved in the face of the terms-of-trade shock and the political pressures to relax fiscal discipline in the run-up to elections. In the medium to long-term, the challenges are even more demanding:

- export diversification; Uganda's heavy dependence on coffee and other agricultural products means that is vulnerable to weather and agricultural commodity prices.
- maintaining the pace of growth now that the relatively "easy" gains of post-war recovery have largely materialised;
- reducing the current extremely high level of aid dependency;
- generating sustainable increases in the revenue/GDP ratio;
- increasing the very low level of private savings
- developing a healthy financial sector that can channel savings to the private sector.

The government's strategy for generating sustainable, private-sector led growth is set out in its Medium-Term Competitive Strategy, which sets out a well-formulated agenda.²⁵ However, as the strategy itself states, implementing this agenda will require "strong commitment at both political and implementation levels" in order to overcome inertia and vested interests.

Poverty and social development

Poverty eradication is at the centre of the government's development strategy. According to the Government's annual household surveys, there has been a clear and important decline in poverty (headcount index) of more than 20 percent over the five years since 1992 (from about 56% of the population to about 44%).²⁶

However, Uganda remains one of the poorest countries in the world, with a per capita income of about \$350. And the distribution of welfare gains has varied substantially by geographic region and by socio-economic group; income inequality remains high. While all regions saw a fall in poverty between 1992 and 1996, regional inequalities worsened, with poverty falling more slowly in the North and East, the poorest regions. Regional disparities have been exacerbated by security, climate and market access (the North is particularly badly served by roads). Living standards in urban areas, especially Kampala, which was already the richest area by far, rose strongly.

²⁵ Medium Term Competitive Strategy for the Private Sector, 2000-2005, Making Institutions Support Private Sector growth, MFPED, July 2000.

²⁶ The existence of relatively high-quality household survey data, and the attention paid to it by policy-makers, is itself a testimony to the priority attached to poverty eradication by government and donors.

| Region ²⁷ | Headcount in 1992 (%) | Headcount in 1997 (%) |
|----------------------|--------------------------|--------------------------|
| Central | 45.5 | 27.7 |
| West | 52.8 | 42.0 |
| East | 59.2 | 54.3 |
| North | 71.3 | 58.8 |

Much of the fall in poverty occurred in coffee-growing households, who benefited from price liberalisation and the coffee boom. Others benefited considerably less. This is clearly a matter for concern, since most poor households are engaged in food crop production, and most of the labour force in this sector is female.

There has been a substantial reallocation of government expenditure towards the social sectors. Education expenditures have nearly doubled as a proportion of all government expenditures, from about 17% in 1988-89 to more than 30% at present. Health expenditures have also increased considerably, although health expenditure – at about 2% of GDP or perhaps \$6 per person per year – is still very low.

Despite rapid growth, the fall in poverty, and the increase in expenditure on social services, welfare indicators appear to have improved only slightly. Uganda ranks very low on the Human Development Index, lower than any of its neighbours. Life expectancy at birth fell in the 1990s to 43, due largely to Aids (see below); malaria is also a serious problem. Maternal and infant mortality rates improved slightly, but still remain high. The total fertility rate remains close to 7.²⁸ The greatest improvements have been in education and literacy, reflecting the high priority attached to this sector by government and donors.

Gender inequality

There is widespread discrimination against women, and violence against women is common. Customary laws in particular discriminate against women, for example preventing the ownership or inheritance of property.²⁹ There is marked economic inequality through the agriculture sector, the mainstay of the Ugandan economy. While 70-80% of farm labour is carried out by women (principally subsistence farming), women have very little ownership or control of land or crops and have very little access to credit.³⁰ They are also particularly burdened by lack of access to water. Poverty is particularly concentrated among women and women-headed households.³¹ The illiteracy rate for women is much higher than that for men.

The Government's response to gender inequality is mixed. The government attaches a high priority to the empowerment of women. Uganda is a regional leader in the use of affirmative action to ensure female political representation. The 1995 Constitution provides that at least one MP from every district must be a woman, and the Local Government Act 1997 requires

²⁷ Poverty Eradication Action Plan, Ministry of Finance, Planning and Economic Development, Kampala, July 2000

²⁸ World Development Indicators, World Bank, 1998.

²⁹ U.S. Dept. of State, 1999 Country Reports on Human Rights Practices: Uganda, Feb 2000.

³⁰ See Forum for Women in Democracy, Sharing the National Cake, the 1998/9 National Gender Budget, September 1999.

³¹ See UNDP, Uganda Human Development Report 1998, pp.30-31

that one-third of councillors at each level of local government must be women. In addition, a significant proportion of members of the Government are women.³²

On the other hand, many Government policies appear not to be gender-sensitive, and the Directorate of Gender and Development³³ has very limited resources and faces difficulty in mainstreaming gender-awareness across other departments. However, the policy of Universal Primary Education has had a positive impact; prior to UPE, girls were disproportionately unlikely to attend school, whereas now boys and girls are equally likely to be in school. There also appears to be a strong response from women in civil society pushing for greater gender quality, e.g. Action for Development and the Forum for Women in Democracy.

HIV/Aids

About 10% of the Ugandan population is infected with HIV, and AIDS is responsible for up to 12% of deaths; it is the leading killer of adults aged 15-49. It is largely responsible for the recent fall in life expectancy, and has a serious impact on government capacity. On the positive side, Uganda has led Africa in devising a coherent and reasonably comprehensive strategy, based primarily on changing sexual behaviour, to fight HIV/Aids. This is set out in the National Strategic Framework for HIV/AIDS. Uganda's efforts against AIDS show what can be achieved even in an extremely poor country, given strong political commitment on the part of the government.

As a result, there has been a marked fall in prevalence, especially in urban areas. The range of infection rates in ante-natal clinic attendees in six urban centres fell from 28-12% in 1991 to 15-7% in 1997. Uganda is thus broadly on the right track, but policy must guard against the risk – noticeable in some developed countries – of a second wave of infection as people lose their fear of HIV/Aids and revert to risky behaviours. In any event, caring for the large number of people already infected will place huge stresses on the health system and society in general for the foreseeable future.

Environmental degradation

Uganda is endowed with exceptional natural resources, including a high degree of biodiversity (with opportunities for eco-tourism). However, substantial environmental degradation has occurred. Between 1971 and 1987, there was a 50% reduction in forest areas.³⁴ Degradation continues today. Significant environmental problems include³⁵:

Land use: Uganda is extremely fertile. However, there is little awareness of the dangers of soil degradation, and there is no comprehensive national land-use policy.

Forests: Wood burning provides most energy consumed in Uganda. Population pressure has led to significant encroachment on forests, and degradation has taken place.

Water resources: Domestic water supply is patchy, covering only 40% of the rural population. Quality is poor. There are water shortages for rain-fed agriculture and animal industry, leading in turn to problems such as encroachment.

Fish: The fish sector makes up about 2% of GDP, and has substantial export potential. However, there are concerns about the sustainability of yields, and poor fishing methods – including the use of poisons, which led to an EC ban on fish exports.

³² See Forum for Women in Democracy, 'From Strength to Strength': Ugandan Women in Public Office, May 2000.

³³ In the Ministry of Gender, Labour and Social Development. This Ministry has relatively little power and influence and does not appear to have the capacity to take a major strategic role

³⁴ International Institute for Environment and Development, The Road from Rio: EC Aid to Uganda Since the Earth Summit, April 1998, p.16.

³⁵ State of the Environment Report for Uganda 1998, NEMA

The National Environmental Management Authority was created in 1995, and specialised agencies have been formed, including the Uganda Wildlife Authority and the (forthcoming) National Forestry Authority. However, difficulties have been experienced in establishing such institutions, in particular the UWA, and it remains difficult for the Government to prioritise environmental issues, given the range of other pressing policy concerns.

Uganda does not face imminent environmental disasters of the sort faced by some developing countries. However, rapid population growth is likely to increase pressures on all the above dimensions, and others, in the next few years.

Donors in Uganda

The level of official development assistance is very high, at about 10% of GDP, comparable to total Government revenue. Both fiscal and external balance therefore depends on donor aid. The country has had more or less continuous structural adjustment programmes with the IMF and World Bank since 1986. The macroeconomic situation has therefore evolved in a situation of constant and close monitoring by the BWI. However, in contrast to some other countries undergoing structural adjustment, government ownership of macroeconomic reform is high. This has contributed both to the success and the sustainability of reform.³⁶

Two important trends are observable in the current focus of donor activity (see section 3C):

- Several key donors are keen to move away from project support to sector wide approaches for aid disbursement, although some other donors remain sceptical. This fits well with the role played by Sector Investment Plans in the planning process
- Donors have sharply increased their focus on governance issues in the past year. This reflects both the reasonably benign macroeconomic picture – which allows donors to focus on the structural constraints– and the perception that corruption has, if anything, got worse rather than better over the last two years.

Regional issues

As a relatively small, landlocked country Uganda is dependent on regional links. However, Uganda's immediate neighbours are variously affected by poverty, economic problems, civil war (DRC, Sudan and Rwanda), and corruption (Kenya and Tanzania). Much of Uganda's trade must pass through Mombasa and Dar-es-Salaam, often with significant delays and problems resulting from corruption and inefficient procedures at these ports.

Uganda participates in the Community of Eastern and Southern Africa (COMESA) and the East African Community. The COMESA treaty entered into force on 31 October 2000, with 9 of the 20 member countries agreeing to the immediate implementation of a Free Trade Agreement. However, Uganda is not one of these countries, and does not appear to intend to join the FTA in the immediate future. Tanzania, one of Uganda's more important commercial partners, recently withdrew from COMESA. The East African Community, groups Uganda, Tanzania and Kenya; and the EAC treaty, which officially entered into force in December 2000, provides for the establishment of a customs union within 4 years. However, there does not appear to be a roadmap towards implementation of this commitment.

³⁶ See for example the discussion of Uganda in International Monetary Fund, "External Evaluation of the ESAF", August 1998.

In short, there appears to be an undersupply of practical measures required to promote greater trade flows and regional integration. This is likely to reflect both political constraints and lack of capacity in the relevant ministries.

B. Was the EC's 1996 strategy relevant to the country's needs?

The EC's 1996 strategy did not have a sound analytical base and was not related to clearly specified objectives. Instead, it largely represented continuity from the previous programme, subject to a politically imperative to focus on roads. As a result the strategy suffered from a lack of realism.

Preparation of the strategy

Process

Little analytical work was carried out in preparing the 1996 country strategy (it should be noted that country strategies were at that time less central to the EC's policy-making process, and were thus accorded less time, importance and resources). Few evaluations were available at the time. Two major evaluations that had been carried out shortly before – of the Stabex and Structural Adjustment instruments – were carried out too early in the lifetime of these operations to yield significant findings. It was therefore difficult for the EC to base its strategy decisions on a careful analysis of the country's needs or on an assessment of the EC's own strengths and weaknesses.

Discussions on the country strategy were held with the NAO office, and the NIP was negotiated with the Government. The NAO office felt there was insufficient interaction between the EC and the Government during preparation of the strategy, and that most of the strategy decisions were taken by the EC alone.³⁷ This situation reflected wider difficulties at the time in relations between the EC and the NAO. However, the NIP was ultimately subject to significant intervention at the political level, see below.

During strategy preparation, consultations were held with EU Member States in-country. However, there was no attempt to compare the EC's proposed strategy with the strategies of other donors or to examine the issue of complementarity. In addition, there was very little consultation with non-EU donors.

There were no consultations with civil society during strategy preparation. Indeed, a recent evaluation found that civil society organisations were unaware of the negotiations that resulted in the NIP.³⁸

Analytic quality

While the strategy paper³⁹ notes some of the constraints in the country, of Government policies, and of other donors' areas of activities, no conclusions are drawn from it for the EC

³⁷ Notes from a meeting between the NAO and the EC Desk Officer indicate that the NAO favoured an EC strategy of support for the water sector and micro-projects, neither of which was an eventual sector of concentration in the EC strategy. Draft Minutes of Joint Meeting Between NAO and EC, 22 November 1995.

³⁸ Evaluation of the 'Decentralised Cooperation' Budget-Line: Mission Report Uganda, GRET/EC, March 2000, p.31.

³⁹ Programming of the 8th EDF: Cooperation Strategy Paper Uganda, EC, Brussels, Feb 1996.

strategy. In particular, the strategy paper contains no mention at all of the extent of corruption in Uganda or of its consequences, and contains no political assessment of the Movement system.

There is little or no connection between the country analysis that was performed and selection of focal sectors for the EC. In fact, the Evaluators were told that the reason for the large concentration on the road sector was at the direct request of the President.⁴⁰

Nor does the strategy paper contain much analysis of the strengths and weaknesses of different aspects of EC aid in the past. While Annex 3 of the paper contains summaries of three evaluations (Structural Adjustment, Stabex, 6th EDF Micro-projects),⁴¹ the paper does not derive the implications of the findings of these evaluations might have for future EC support.

| Choice of sectors in 7 th and 8 th EDF NIPs | | | |
|---|-----------------------|---------------------|-------------------------------|
| Sector | 7 th EDF ‡ | 8 th EDF | Amended 8 th EDF * |
| Transport | 39 % | 55 % | 52 % |
| Agriculture & environment | 32 % | 15 % | 8 % |
| Social sectors | 19 % | 20 % | 26 % |
| Other interventions | 10 % | 10 % | 14 % |

‡ Excluding allocation from Structural Adjustment Facility noted in the 7th EDF NIP.

* The sectoral allocations were amended in 1999 following recognition by the NAO and the EC Delegation of slow progress in preparing the Plan for the Modernisation of Agriculture. In order to prevent this impacting on the rate of implementation of the NIP, it was decided to support the PMA through Stabex resources, and to reallocate to other sectors the € 15 million that had been earmarked for this purpose in the NIP.

Given the lack of an analytic base for the strategy, and given the selection of sectors that was made, the implicit theme is largely one of **continuity** from the 7th EDF to the 8th EDF – subject to the political imperative to concentrate on roads noted above⁴²:

- Transport, focusing on roads, was to remain the largest sector of intervention, with 55% of the allocation. As discussed in more detail below, there was no real analysis of whether the programme was realistic, given the long lead times involved in road projects and the administrative capacity of the government and of the Commission.
- The reduction in the allocation to agriculture and the environment (32% to 15%) was compensated by additional funds to be available from Stabex – thus limiting any aggregate change in the sectoral allocation.
- There was minimal change in the allocation to the social sectors (19% to 20%). Within the education sector, however, it is implied that there might be a shift away

⁴⁰ Interview with NAO office. This is also confirmed by the background papers prepared for the 1998 Country Review. Country Review Uganda, 17 November 1988.

⁴¹ Programming of the 8th EDF: Cooperation Strategy Paper Uganda, EC, Brussels, February 1996. Annex 3, pp.5-7.

⁴² There are of course substantive arguments in favour of at least some continuity in the selection of sectors: the costs involved in switching sectors, and the possibility that the EC may have developed comparative advantage in some sectors. However, the strategy did not articulate them. Nor can it be said, based on the record described below, that the EC has a clear comparative advantage in the roads sector in Uganda.

from human resource development to primary education. In the health sector, by contrast, the EC has subsequently shifted *towards* human resource development in the 8th EDF. The latter shift seems difficult to justify.⁴³

- Other areas would continue to receive 10% of funds, though there was a change in the list of possible areas identified. The 8th EDF NIP points to possible actions in private sector development, tourism, decentralised cooperation, democratisation and good governance.
- Despite the increased concentration in the transport sector, the programme remained characterised by a multiplicity of different interventions (see section 3C). For example, agriculture and environment were to include a wide range of areas of intervention, including: diversification of cash crops, tourism, national parks, forestry, tea. There was no analytic justification for this approach. A number of interviewees suggested that the rationale was primarily political in nature, designed to increase the visibility and political impact of EC interventions.

Mention was made of the possibility of regional concentration. In earlier discussions, the EC appeared to be prioritising the West Nile, south-west and Karamoja.⁴⁴ At the EDF programming committee, however, the EC stated it would focus on the north and east of the country, which was supported by the EU Member States.⁴⁵ There has been some attempt to focus on the North, e.g. the Acholiland programme. However, no such focus is observable in the roads sector, although it constituted the majority of the programme.⁴⁶

Relationship with EC priority objectives

The overall objectives set out in the strategy paper and in the NIP were fairly general, with some focus on poverty alleviation (which was already very much the government's priority at that time). The NIP stated that the overall objective was to "increase the well-being of Uganda's population with particular emphasis on populations in deprived areas", and listed priorities in the areas of sustainability, poverty eradication, the rule of law, international economic integration, gender, and decentralisation.⁴⁷ The lack of specificity about objectives again probably reflects the relatively low priority attached to country strategies at the time, and makes it more difficult to evaluate the success or otherwise of the strategy.

Poverty reduction. In its statement of aims, the strategy paper states that EC interventions will be targeted principally at the rural poor.⁴⁸ However, the paper contains no analysis of whether the chosen areas of intervention are particularly appropriate for the purpose of poverty reduction, e.g. there is no analysis of what types of road might achieve the highest poverty impact. In fact, the focus of assistance has been on roads serving the richer parts of Uganda. (partly for security reasons). More broadly, poverty eradication as priority area of cooperation, was not directly reflected in the makeup of the original road programme. The later inclusion of a feeder roads project was a move in this direction, although the preparation of this project has advanced little and it now looks like slipping into the next EDF.

Good governance. The strategy paper contains very little analysis of constraints on good governance and the rule of law. There is no discussion of corruption, and no assessment of the Movement system of government. The lack of analysis in this area may partly explain the

⁴³ The Mid-Term Review of the HRDP was completed in October 1997, although the problems with HRDP had already emerged by the time of the strategy preparation.

⁴⁴ Report of Mission to Uganda of Georges-Marc André, Desk Officer (November 7 to 24, 1995), Brussels, 29 November 1995.

⁴⁵ Note to the Member States' Delegations: 315th Meeting of the EDF Committee, Minutes.

⁴⁶ This reflected the geographical division of the country between donors for the purpose of the Road Sector Development Programme.

⁴⁷ Uganda-EC cooperation, NIP, 8th EDF, 1997.

⁴⁸ Cooperation Strategy Paper, op. cit., pp.6-7.

limited support for governance programmes in the selection of areas for intervention. Support for governance is mentioned only as one category in “other” areas of intervention.⁴⁹

Gender equality. Following strong criticism from Member States regarding the lack of mention of gender issues in early drafts of the strategy paper, the final strategy paper includes references to gender equality as ‘a particular objective’ of EC aid in Uganda (p.7). However, this priority does not appear to have been integrated systematically in the selection of interventions.

Environmental protection. The EC’s strategy contains a relatively strong focus on the environment, though it is not clear if the identification of activities was justified on the record of the EC’s past interventions. At the time the strategy was being prepared, an evaluation was carried out (final report July 1996) of the EC’s forestry programme which was critical in a number of areas (see section 2.C below). Nevertheless, the NIP (signed in January 1997) specified that 8th EDF programmes should ‘aim at pursuing on-going actions funded under the 7th EDF so as to entrench the results already achieved’ (p.9).

Explaining the weakness of the strategy

The lack of analysis, inadequate justification of the choice of sectors and weak linkage to (inadequately specified) objectives reflect primarily the political constraints under which the strategy was prepared. Given that the overall allocation of funds was constrained by the political necessity to fund roads and by the preference to spread funds across a multiplicity of interventions, the result was largely predetermined. There was therefore little point in devoting scarce time and resources to a thorough analysis on which could have underpinned the formulation of a more soundly based strategy.

Adjusting the strategy: roads sector

The problems with a strategy based largely on continuity and political constraints, rather than analysis, are illustrated by experience with the roads programme, which has suffered from serious delays, and has proved to be seriously over-programmed. Significant changes in the projects identified for funding has also brought into question the original prioritisation and the quality of the programming exercise; nevertheless, the EC has chosen to press on with the original strategy.

Lack of realism

By the second half of 1999, the NIP (Annex 4) had projected that 100% of primary commitments and 44% of payments would have been made. In fact, the achieved figures were 6% and 0% respectively. By October 2000, the time of the evaluation mission, these figures had changed little. Between July 1998 and October 2000, the projected date for a financing decision slipped by 18 months for the Kampala Bypass, by 16 months for the Northern Corridor Route (Kampala-Katuna) and by 14 months for Jinja-Bugiri.

Delays have arisen for a number of reasons, mostly foreseeable. The Commission’s 1998 Country Review reports that the original implementation schedule was “...unrealistic from the beginning and could never possibly have been met”⁵⁰, for a number of reasons, including the length of time required for preparatory works, the low planning and implementation

⁴⁹ At the EDF Programming Committee, the EC stated that it would stress the importance of human rights in negotiating the NIP with the Government (in response to the UK highlighting the abuse of human rights linked to the forestry evictions – see section 2.C below). It is not clear whether the issue was raised with the Government at the time.

⁵⁰ Conclusions of the Country Review for Uganda, March 1999 (the actual discussions took place in November 1998).

capacity of the administration, and personnel problems in the Delegation, as well as capacity problems on the GoU side (particularly in the MoWHC).

Unwillingness to adjust

However, despite the candid assessment of progress to date with the NIP, the 1998 Review did not recommend scaling back the roads programme, arguing that “it would be difficult to drop any of these projects...as:

- we have already invested a lot of time and money...
- we are firmly committed to this programme. The present allocation...represents a compromise with President Museveni, who initially wanted to allocate the whole NIP to roads
- they could only be replaced by other infrastructure projects.
- Uganda is performing better than its neighbours.”⁵¹

It should be noted that these arguments do not appear to carry much weight from an economic perspective. However, the background papers for the review observe frankly “if the mid term review [were to be] carried out in 1999, and if we were serious with this review, Uganda would not receive the second tranche of NIP funds. This might not be too harmful from a development point of view [but] might be considered as the wrong political signal.”⁵²

The 1999 Country Review, which had to decide whether to allocate the second tranche of the 8th EDF NIP, noted that “the time necessary for the preparation of various large road projects has been grossly underestimated.” Given the delays that had occurred, and given that “Uganda would not be able to absorb the totality of the second tranche by the end of 2000”, early drafts proposed to allocate only 50% of the second tranche; however, as a result of discussions between the Delegation and Headquarters – presumably taking into account non-economic considerations – it was decided to allocate 100% of the second tranche. The Review justified this by arguing: “Preparatory works for all of the projects in the pipeline,..., are well underway, and the decision dates included in the table are based on detailed and realistic estimates of how long each individual step in the preparation would take....” and “...On the whole, conditions for a smooth and effective implementation of the 8th EDF NIP are now considered to be quite favourable in Uganda”.

However, there would appear to be limited evidence to support this assertion. It is very difficult to avoid the conclusion the EC was choosing to prioritise political signals over development effectiveness. This reflects a systemic failure in the strategy process at the time.

So far only the accuracy of projections concerning financing decisions has been seriously tested. It can be seen that systematic delays and slippages continue:

| Road Project | Date of Projection | | Delay |
|-------------------------|--------------------|----------|----------|
| | 15/10/99 | 24/10/00 | |
| Kampala Bypass | Jul. '01 | Jan.'02 | 6 months |
| Northern Corridor Route | Oct.'01 | Apr.'02 | 6 months |
| Jinja-Bugiri | Jul. '00 | Dec.'00 | 5 months |
| Ntungamo-Ishasha | N/A | N/A | - |
| Feeder Roads | Dec.'01 | Jun.'02 | 6 months |

⁵¹ Conclusions of the Country Review for Uganda, March 1999 (the actual discussions took place in November 1998).

⁵² Country Review Uganda, 17 November 1998.

An illustration of the consequences of this approach – the need, for political reasons, to press on with projects once started – is shown in the box.

Sunk costs: the case of the Kampala Bypass

The EC funded the preparation of an economic feasibility study, detailed design and tender documentation between 1992 and 1994. The study did not include an EIA and the consultants' ToR did not require them to look at alternative routings. After detailed project preparation work was completed, questions arose concerning the environmental impact of the preferred southern option, which would cut across wetlands on the shores of Lake Victoria. The EC and GoU decided to do a comparative feasibility study of a northern option versus a southern option (1996-1998), this time including an EIA. The study concluded that the southern option posed an unacceptable threat to the environment and that a northern option was superior from an environmental perspective.

The initial proposal by the feasibility consultants, although sound from an engineering perspective, was judged to be “virtually ‘unmitigatable’” from an environmental perspective by the consultants undertaking the subsequent comparative feasibility study. This was because of the requirement to demolish over 1,200 properties and compensate their owners at an estimated cost of US\$ 41 billion. Instead, this study recommended an alternative alignment with a reduced impact on properties and a lower estimated compensation cost of US\$ 21 billion.

However, a recent draft feasibility study (August 2000) raises wider questions, *“The results of the economic analysis demonstrate that the Northern Bypass is a necessity for immediate easier transport within Kampala. However, the transport issues of the city will not be addressed in the long term through any kind of bypass design. There exists almost no transit of traffic crossing Kampala through and through, and a design limiting the accesses to privilege this type of traffic certainly will lead somehow in the future (in ten years time) to situations worse than nowadays...It is also clear that the Northern Bypass alone will not address in the long range the issues relating to transport in Kampala. It may only be a temporary solution...”* Junctions between the by-pass and the Kampala network were recommended by this report (and agreed by the GoU). However there is an inadequate analytical basis for confirming whether this is an optimal solution to the problem of excessive congestion in the city (most of which has been shown to be local) or a modification to a project originally conceived to deal with a mis-specified cause (a large volume of through traffic). Identifying the optimal solution would require a systematic, network-wide approach. Without this approach, the consultants' conclusion that the Northern Bypass is a “necessity for immediate easier transport” within Kampala remains unproven: there may be other more cost-effective solutions. Furthermore,

the bypass direct effects on the poor are negligible and possibly negative, depending on the profiles of those likely to be displaced⁵³. Other solutions might have a more positive impact on the poor in Kampala. Moreover, giving priority to Kampala seems inconsistent with the Government's poverty reduction objectives (e.g. deficiencies in transport infrastructure in rural and disadvantaged areas).

Despite the problems that resulted from the lack of an EIA, there is still limited evidence that the GoU considers environmental issues carefully in project design.⁵⁴

the potential bill facing the GoU for land purchase and compensation is over US\$ 20 billion. This represents over 40% of the amount budgeted for main road maintenance for 1999/00⁵⁵.

In summary, the case for giving priority to constructing the Kampala Bypass over other options for improving traffic movement in the city should be reconsidered. It would seem, that the EC continues to pursue this project because of “sunk costs” – not just financial, but also political and administrative.

Cost overruns constrain future strategy

In addition to these delays, cost overruns on roads projects have been very substantial. A March 2000 mission concluded: “It is becoming clear that the cost estimates for the road

⁵³ The draft feasibility study gives little attention to the poverty impact of the project.

⁵⁴ At the meeting between Evaluators and the MoWHC, the PS questioned the necessity for a public inquiry for the Kampala Northern Bypass, and made it clear that this was being done in order to satisfy the EC rather than to meet any perceived national need.

⁵⁵ See Transport Sector Investment and Recurrent Expenditure Programme 1999/00-2002/03

projects, on which our planning for the 8th EDF was based so far, greatly underestimate the true cost of basically all projects.”⁵⁶ More recently, cost estimates from ongoing feasibility studies have more than confirmed these concerns. Together, the Kampala Bypass and the Jinja-Bugiri road can now be expected to consume 74% of the NIP allocation for economic infrastructure leaving only MEURO 29 for the remaining projects. Moreover, the unit cost estimates for the Jinja-Bugiri road imply that the final estimate for the much longer Kampala-Katuna road will be many times over the originally programmed budget.⁵⁷

The Commission’s response has been to consider deferring part or all of this project and the Feeder Roads project to the 9th EDF NIP, where together they would consume most of the likely allowance for economic infrastructure. Once again, such an approach is understandable from an institutional viewpoint, since the GoU would likely react negatively to cancellation of any of the large road projects, and there are considerable administrative “sunk costs”. However, this is less understandable from a development perspective. Sunk costs should not determine strategy.

Initial preparations for the 9th EDF

The EC has recently begun the process of preparing its Country Support Strategy for the 9th EDF. This process is likely to be constrained by the weakness of the NAO office and by the fact that the Delegation is over-burdened by administrative procedures. As a consequence, there is little capacity for analysis and strategic planning. As in the past, the Commission seems not to be able to allocate significant staff resources and time for this important exercise. Moreover, if political and administrative constraints – rather than analysis and a focus on the EC’s key objectives - are allowed once again to drive the process, there will be limited value to analysis.

One important development since the 1996 strategy preparation process is that improvements in the Government’s budget and planning process provide a clearer framework within which the EC’s strategy can fit. However, the integration of the EC programmes into this framework is still weak (see discussion in section 3).

In addition, the civil society consultations that took place during the revision of the PEAP can provide a starting-point for the consultations that the EC is now required to have in the context of the Cotonou Agreement. By building on the PEAP consultations, it would be possible for the EC to ensure its consultations are systematic and not *ad hoc*.

In 1997, DENIVA initiated a series of on-going consultation meetings on EC aid with other civil society organisations, in the context of the negotiations on the post-Lomé treaty.⁵⁸ The EC Delegation participated in these meetings, but DENIVA informed the Evaluators that there had been little attempt to discuss with civil society what the EC’s future country strategy in Uganda should be. At the time of the evaluation mission, the Delegation stated that it was planning consultations with civil society organisations (through the NAO office) in the near future on the new Country Support Strategy, but it was not clear how systematic these consultations would be.

⁵⁶ See mission report from Country Desk Officer of March 2000:.”

⁵⁷ Simple examination of the unit rate for construction costs for the 78 km Jinja-Bugiri road suggests that the 427 km Kampala-Katuna project is likely to cost up to three or four times the originally programmed amount. This comparative exercise could easily have been carried out earlier and revealed the existence of the over-programming problem sooner.

⁵⁸ EU-ACP Negotiations on Post Lomé IV Convention – The Stand of Uganda Civil Society Organisations, DENIVA, July 1999.

In October 2000, the EC began in-country discussions with EU Member States. With their assistance the EC has begun to prepare a 'donor matrix', setting out each donor's areas of intervention, in order to allow better analysis of complementarity.

C. EC programme in Uganda

While Uganda has been a significant beneficiary of EC NIP funds for many years, during the period covered by this evaluation the Stabex allocations have been comparable in size to those from the NIP, and the two must be considered together. The country has also received significant funds from the Structural Adjustment Facility.

The 7th EDF NIP provided € 163 million. Stabex funds from the 7th EDF (deriving very largely from coffee, with small allocations also from cotton, and from hides and skins), have amounted to € 174 million (including interest), slightly larger than the NIP. Uganda also received € 52 million from the 7th EDF Structural Adjustment Facility.

In the 8th EDF, there was a significant increase in the size of the NIP, to € 210 million. So far, the country has become eligible for € 27 million of 8th EDF Stabex funds (1999 allocation) and € 41 million from the 8th EDF Structural Adjustment Facility. Funds from these last two sources are likely to increase. Indeed, a further € 75 million of structural adjustment funds are in the pipeline.

Funds from EC budget-lines have been small in comparison, totalling € 22.3 million between 1993 and 1998, the largest being NGO Co-financing.⁵⁹

The Table below summarises the major 7th and (approved) 8th EDF projects and programmes (above € 5 million)—based on information provided to the Evaluators during the October visit—. Because of the complex way in which Stabex funds have been used (with multiple channelling agreements, and the pooling of Stabex and NIP funds), an attempt has been made to group Stabex and NIP funds together where appropriate into single projects/programmes, for the purpose of clarity. Annex 1 contains a more comprehensive version of this table.

⁵⁹

Source: *Country Review Uganda*, November 1998.

| 7th and 8th EDF (approved) projects and programmes (> € 5 million) | | | | |
|--|--|-----------------------------|-------------------------------------|---|
| Source of funds | Project | Amount € million | Date of commit- ment | Main activities |
| | | SASPs | | |
| SAF, NIP 7 th | Structural adjustment support | 31.25 | 1991 | • Balance of payments support |
| SAF 7 th | 2 nd Structural adjustment support | 29.7 | 1994/5 | • Balance of payments support |
| SAF 7 th / 8 th , NIP | 3 rd Structural adjustment support | 51.1 | 1997 | • Balance of payments support |
| | | 7th EDF | | |
| Stabex, NIP | Smallholder tea (STRP 7 th EDF, STDP) | 41.6 | 1992-6 | • Development of smallholder tea production and processing |
| NIP | Uganda Health Programme | 24.0 | 1993 | • Support for decentralised health services in 11 districts |
| NIP, RIP | South-West Uganda Road Maintenance Programme | 23.1 | 1994 | • Road maintenance in south-western districts |
| NIP | Rehabilitation of Kampala City Roads, Phase 2 | 23.0 | 1992 | • Rehabilitation of urban roads, with TA to City Council |
| NIP, Stabex, SASP CPF | Micro-projects programmes (various) | 21.2 | 1992-7 | • Social infrastructure & micro-finance projects in various regions |
| Stabex | Universal Primary Education | 15.0 | 2000 | • Budget support to the education sector |
| NIP | Human Resources Development | 14.5 | 1992 | • Strengthening tertiary & university education, and in-service employment training |
| Stabex | MTWA Tourism & Wildlife Support | 8.7 | 1993-9 | • Institutional support to tourism & wildlife, and development of national parks |
| Stabex | Forestry bridging finance | 6.9 | 1996-9 | • Extension to 6 th EDF funding, with institution strengthening and support to forest reserves |
| Stabex | Farming Systems Support | 5.4 | 1993 | • Bridging finance for 6 th EDF programme, including coffee research |
| | | 8th EDF | | |
| NIP | Universal Primary Education | 31.0 | 1999 | • Budget support to the education sector |
| NIP | Micro-Projects Programme | 15.0 | 1999 | • Social infrastructure projects prepared & implemented through local authorities |
| NIP | Improving Sexual & Reproductive Health | 8.0 | 1998 | • Improving sexual & reproductive health |

Table based on calculations made by the evaluators. Information provided by the EC Delegation from their project data base (project funding analysis report (detailed) and OLAS. Note: Because of the complex way in which Stabex funds have been used (with multiple channelling agreements, and the pooling of Stabex and NIP funds), an attempt has been made to group Stabex and NIP funds together where appropriate into single projects/programmes, for the purpose of clarity.

2

Performance of the EC's programme

The assessment of the performance of 7th EDF projects is primarily based on available mid-term and final evaluations. Since the implementation of 8th EDF projects has only recently begun in most cases, the assessment of these interventions is based on their likely impact. This assessment is based on analysis of the quality of project preparation and available information about implementation.

Performance is assessed in terms of impact on EC objectives such as poverty, governance, gender equality and the protection of the environment.⁶⁰ Key factors contributing to the EC's performance are analysed in Chapter 3 (institutional strengthening, the degree of donor coordination, and the Commission's resources and procedures).

A. Governance

The EC Delegation has played a useful political coordination role for the Member States. However, the contribution of the EC programme to improving public administration has been very limited. With the exception of the health sector, EC projects have contributed little to capacity building. In other sectors, project support, and especially the role accorded to Stabex, has tended to undermine rather than promote transparency and accountability, and there has been no anti-corruption strategy.

Delegation plays useful political coordination role

At the request and in close coordination with Member States, the EC Delegation has taken the lead in raising sensitive political issues with the GoU on behalf of the EU as a whole, in particular those related to democratisation, governance and armed conflict. For example, at the Consultative Group meeting in Kampala in March 2000 the Head of Delegation emphasised the importance the EU attached to the issue of corruption, in particular the need to investigate and prosecute high profile corruption cases; and the damaging implications of Uganda's involvement in Congo. Subsequently, on the occasion of the Public Expenditure Review meeting on 16 May 2000, after further clashes between Ugandan and Rwandan troops in Kisangani, the EU declared in a common statement that progress towards budget support would be linked to Uganda's progress in the implementation of the Lusaka Agreement and restraint in defence spending. On both these occasions, the Delegation has played a constructive role; the usefulness of this role goes beyond simple coordination, since it may be possible for the EC Delegation to say things that EU Member States, for political reasons, are reluctant to say either individually or collectively.

Direct support to referendum of uncertain impact

The EC provided some financial support to the June 2000 referendum which rejected multi-party democracy. However, procedural problems meant that this support could not be disbursed until after the referendum took place. More broadly, the objective of providing

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As set out in section 1B, the 1996 country strategy did not clearly specify the EC's priority objectives. There is thus inevitably some ex post element in the selected objectives, reflecting the EC's current priorities. However, even at that time, all of these objectives (especially poverty reduction) should have been part of a properly formulated strategy.

financial support to what was perceived to be a flawed process – albeit one that probably reflected public opinion – was unclear.

The EC is currently proposing a human rights programme. However, the large number of components and relatively low financial commitment suggest that the programme is unlikely to achieve a significant impact. The EC's proposed "Support to Human Rights, Democratic Principles, Rule of Law and Good Governance" (€ 5 mill) is a highly fragmented project proposal – the coordination and monitoring of which is likely to stretch the limited resources available – and the financial contributions for some components are so small that they are unlikely to have a significant impact, if the draft programme is not adjusted.

Project support undermined budget transparency and accountability

EC projects have not in general contributed to budget transparency and accountability – and indeed on occasion have undermined it - for a number of reasons:

- In practice, the location of the NAO office in the MFPED results in poor integration of EC project finance with the overall budget planning framework (see Section 3A). While the NAO office is administratively part of the MFPED's Aid Liaison Department, interviews of the Evaluators both with MFPED officials and with other donors made it clear that the NAO office (and Aid Liaison Department) mostly works with EC interventions. As a result, EC projects are relatively marginalized within the budget planning process.
- Very long delays in project approval also mean that in practice it is very difficult for the government to integrate projected EU financing within the budget planning process. Even for projects where prompt arrival of funds was obviously time-critical, EC funds arrived too late, resulting in non-transparent financial management by the NAO and the Delegation (see section on EC resources and procedures).
- The complex use by the EC of different sources of funding for the agriculture sector, while providing flexibility, has limited transparency. NIP and Stabex funds have been used interchangeably, and there are a number of cases in which Stabex funds have been used as 'bridging' finance to allow the continuation of projects which seem to have run into difficulties, creating a situation in which budget constraints on EC projects appear not to be hard. Particular examples are seen in support for coffee, tea, silk and forestry (see section 3.C on EC resources and procedures.). Similar issues arise in respect of other sectors (for example, the Human Resources Development Programme).
- Even budget support (SASP), which should have been a relatively transparent intervention, has in the past undermined accountability because part of the funds have been used for purposes other than budgetary support (support for a number of small interventions, including support for NIP projects). The accounting of funds has also been complex, and both the 1995 evaluation and the audit found a number of weaknesses in the management, accounting and auditing of counterpart funds.⁶¹

These problems would matter less if the Ugandan budget process as a whole was non-functional. But given the relatively high quality of the budget process, it is unfortunate that EC project support in effect undermines some of the useful progress that has been made. It also makes it very difficult for the EC to argue credibly for improvements in GoU financial management and accountability when its own project support is weak.

⁶¹ The SASP2 financing proposal required a financial audit and independent evaluation. In SASP3 the financing proposal only notes that "during programme implementation...external audits and independent evaluations (will be) carried out, as deemed necessary" p11.

The move to provide financial support through sector approaches is likely to improve matters substantially, as in EC support to the Education Sector Investment Programme. This support will be integrated directly into the budget provision for ESIP. Moreover, the EC has taken the lead in the Education sector review process in pressing for improvements to the auditing and accountability arrangements for education spending. This means that in this case EC funding will contribute to improvements in monitoring and accountability not just for the money provided by the EC, but for the whole education programme. However, even in this case, the contribution (and credibility) of the EC has been somewhat undermined by the delay in securing approval for EDF financing; funds that were originally expected to arrive for the 1999/2000 financial year will now not be provided until the following financial year.⁶²

Corruption: little evidence of an EC strategy.

Despite the increased importance of this issue to donors, there is little evidence of a comprehensive and coherent EC strategy. This is true both for individual EC projects, and for EC strategy towards the country as a whole. EC projects, like those of other donors, have in the past experienced problems related to corrupt practices and maladministration:

- The 7th EDF micro-projects programmes were marked by weak financial controls and poor management, as documented in the draft Court of Auditors report.⁶³ The financial irregularities were sufficiently serious that the programmes were suspended for one year, from 1997 to 1998
- On roads, a sector in which corruption and maladministration has been a pervasive problem for donors, in 1995 the Court of Auditors was highly critical of the procurement processes and financial administration of works contracts for the Masaka-Kabale Road and Kampala City Roads.⁶⁴ The 1999 Court of Auditors draft report notes that problems with the Northern Corridor project have not been addressed. However, procedures appear to have improved in most recent projects
- There are also reports on financial irregularities by the Project Director of the Human Resources Development Program⁶⁵
- EC's support to the Uganda Wildlife Authority (UWA), resulted in financial irregularities which led to the suspension of the project (see below).⁶⁶
- In general, the limited transparency and accountability for EC project funds is likely to contribute to the maintenance of an environment where corruption is possible.

While the Delegation has emphasised the importance of tackling corruption, and matters appear to have improved in the last two years, the issue is not yet well integrated operationally. This is a difficulty also shared by other donors.

Capacity-building

EC projects have so far contributed relatively little to capacity building, with the exception of the Rural Health Project (and, looking forward, the EC contribution to the Education Sector Investment Plan):

⁶² Instead, funding in 1999-2000 was provided using Stabex resources. Even a relatively expansive view of the purpose of Stabex would be unlikely to extend to the financing of primary education.

⁶³ European Court of Auditors, Mission Report: Uganda, 18.9.1999 – 1.10.1999, draft, Annex 4.

⁶⁴ Court of Auditors report.

⁶⁵ Mission Report, Mr. A. P. Crasner, 18 March 1996.

⁶⁶ Evaluation of the MTWA Tourism and Wildlife Support Programme: Final Report, Dangroup/EC, March 2000.

- A project with a clear capacity-building component was the Human Resources Development Program (HRDP). The objective of component 1 of HRDP was to “strengthen the capacity of the government for planning, development and efficient utilisation of its human resources.” However, two years into the project, a mission concluded that “there has been no progress at all with Component no. 1 of this programme and that it is doubtful whether the original conception is relevant to the current needs of the Ugandan economy.”⁶⁷ Eventually, this component was wound down. Other components of the HRDP also had a capacity –building component (for example, support to in-service training). These too were characterised both by poor project design and severe implementation problems.⁶⁸
- By contrast, the Rural Health Project (and the related District Health Systems Strengthening Project, a component of the West Nile Health Project) , because they were well integrated with the overall objectives of the National Health Plan, appear to have contributed significantly to capacity building at district level. The mid term review found that “the project’s support to the establishment of district systems directly supports the NHP’s aim to promote and empower local communities ownership and involvement in health services.”⁶⁹ Interviews with other donors and with officials of the Ministry of Health also suggested that this project was successful in its capacity-building objectives.
- Government capacity has been a particular problem in the roads sector. The World Bank, with the support of MFPED and other donors, including the EC, supported reforms involving the separation of policy formulation, performance monitoring and regulation from implementation. This involved the establishment of a Roads Agency Formation Unit (RAFU) as a precursor to the formation of a Roads Agency. In principle, therefore, a coherent broad policy-making framework exists. While these reforms were well conceived, there have been problems in their implementation. As a result, the institutional weakness of the Ministry of Works have not been addressed. Meanwhile, the EC programme has focused almost entirely on individual project implementation, with relatively little attention paid as yet to institutional problems.⁷⁰ There has been improvements in the pace of project implementation –both for EC projects and for others - as a result of the establishment of RAFU but potentially at the cost of long-term sustainability, and broader policy formulation capacity. Looking forward, these institutional weaknesses are likely to continue to constrain the ability of the EC to successfully implement roads projects in the future.

The move to sector approaches will give the EC, if it responds appropriately, the opportunity to have a greater impact on capacity-building in the future; this is already the case in the education sector. This is discussed in more detail in section 3A below.

⁶⁷ Mission Report of Mr. A. P. Crasner, 18 March 1996.

⁶⁸ The conclusions of the mid-term review (Mid-Term Review of the HRDP, Cambridge Economic Consultants, September 1997) describe the causes of failure of Component 4 (in-service training) as being “lack of focus, action and expertise”.

⁶⁹ Mid Term Review of the Uganda Health Program, HERA, January 2000

⁷⁰ In part explained by the very limited resources available to the Delegation.

B. Poverty reduction

Most EC projects have not had a sufficiently strong poverty focus. A number of projects in the health sector have likely had a positive impact, but elsewhere most projects were either not focused on poverty in the first place, or failed to deliver. Project documents show little or no analysis of the likely poverty impact, and the Delegation does not appear to have had the technical capacity or resources to produce such analyses. This failure on the part of the EC contrasts unfavourably with the Ugandan Government's commitment to poverty reduction and the high quality of poverty-related research in Uganda.

However, moves to EC participation in sector approaches, as is already the case in education, are likely to result in a significant improvement in the poverty impact of EC support. These approaches are to be fully integrated into the budget planning process and the overall development strategy based on the PEAP.

Uganda is relatively advanced in the study of poverty. In Uganda, new indicators have been developed based on direct consultation with the poor. These include risk, vulnerability, physical and social isolation, powerlessness, and insecurity.⁷¹ This has been reflected in the revised PEAP which puts a major focus on growth, governance and security and also on actions which directly improve the quality of life of the poor.

Overall economic policy framework – some poverty impact but little EC value-added

The EC supported the BWI overall reform programme, which as discussed in Chapter 1 has had a significant impact on poverty. The EC has provided about € 116 million in structural adjustment support programmes, which has generated funds to support the Government budget. Structural adjustment was a key precondition for Uganda's growth performance in recent years. In turn, it is estimated that 95% of the 20% reduction in the poverty headcount is attributable to economic growth. In particular, the liberalization of coffee, part of the initial reform programme, directly benefited small-holder coffee farmers. This in turn led directly to many small-holder producers moving out of poverty.

However, a 1995 EC evaluation⁷² found that very limited improvements had been achieved in the social sectors that directly impact on the poor, particularly given the weakness of Government financial and control systems. The evaluation noted that there were very poor data and benchmarks for delivery in the social sectors. While there have been significant improvements in budget planning, the weak focus on expenditure allocations was confirmed by World Bank expenditure tracking surveys that found that public funds did not reach the intended facilities (in part because of corruption and misuse of funds).⁷³ However, the recent focus on improving delivery of public expenditure (education tracking in 1998 and the introduction of surveys of service delivery) and particularly the participation of local communities in the monitoring and evaluation of the Poverty Action Fund suggest a higher impact of future EC support to the budget. This progress, however, will also depend on real improvements in accounting, internal controls and procurement, as part of the World Bank's PRSC.

In any case, it is unlikely that past EC support contributed much either to the economic framework or to the poverty focus of the overall reform programme, apart from money. The programme was devised by the BWI, and insofar as it was successful its success was due both

⁷¹ Uganda Participatory Poverty Assessment Project, MFPED

⁷² Evaluation of the EC Structural Adjustment Operations in Uganda. Maxwell Stamp, April 1995.

⁷³ "Using surveys for public sector reform", World Bank, May 1999.

to good program design on the part of the BWI and to government ownership of the program. The EC, while imposing numerous extra conditionalities to its structural adjustment support, did not really affect the main programme.

Specific EC conditionalities in SASP 1, SASP 2 and SASP 3 (on civil service reform, the investment code, the tax system, tariffs, the education sector plan, the system for monitoring use of conditional grants, etc.) did not made any significant contribution to the reduction of poverty, but have contributed (as is the case with other donors) to the diversion of valuable Government staff resources by requiring bilateral discussions on this multiplicity of conditionalities. Moreover, the serious delays in disbursement of SASP funds (resulting from the difficulty of monitoring complex conditionalities, as well as the non-performance by the Government of IMF conditionalities and the crisis in the Congo) have not allowed efficient budgetary management of these funds, and have reduced their positive impact. In retrospect, had the EC simply imposed the same conditionalities as those mandated by the BWI, little would have changed, except that the administrative burdens on GoU would have been reduced and funds would have been disbursed in a more timely fashion. In future, these difficulties could be addressed if the new budget support operation from the EC is integrated with that of other donors, as the EC plans.

Project support – little poverty focus

The EC has concentrated its efforts in sectors – roads, health, education and agriculture – which potentially could have a large impact on poverty. However, most EC project support in the past has had little or no poverty impact, for two main reasons. *First*, there was little or no poverty focus in the projects themselves.

- the Road Sector Development Programme, because of the way it is constructed, tends to be biased towards richer areas.⁷⁴ While the government recognises this bias, the flawed institutional structure, as described above, makes it very difficult to integrate poverty analysis within planning for the roads sector. As long as policy (including economic analysis, and updating of the RSDP) is driven by engineering consultants reporting to RAFU, poverty analysis (as well as other wider socio-economic issues, like HIV/Aids) is likely to be downplayed. Nor was any attempt made to introduce a poverty focus within the specific EC projects, either by integrating poverty analysis techniques within the economic analysis and feasibility studies commissioned by the EC, or by considering using more labour-intensive technologies.
- The main past EC intervention in the education sector, the HRDP, had no poverty focus. Indeed, the word poverty does not appear in the mid-term review. This was partly inherent in the design– the direct beneficiaries of the program – skilled workers, higher education institutions, middle and upper level civil servants – are among those least likely to be poor in Uganda. It is of course possible that the program would, if it had been successful in building government capacity, have had some indirect impact on poverty. In any case, given the very limited success of the programme, it is unlikely to have had any significant poverty impact.

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“the prioritisation of roads in the original ten-year programme was based mainly on economic rates of return based on the reduction in transport costs. Some criteria were added to address poverty, though some of these (e.g. food production) would have tended to favour richer rather than poorer areas. In the update of the 10 year programme, only economic returns are modelled, with no distributional element included. Because traffic levels are higher in richer regions, this leads to 68% of the proposed investment being in the two richer regions, Central and Western”. Poverty Eradication Action Plan, Ministry of Finance, Planning and Economic Development,, Kampala, July 2000, p. 85.

Second, projects were by and large poorly designed and implemented:

- As described above, the HRDP had very limited success, while roads projects have been marked by very long delays and cost overruns (see 1B).
- Project design has been particularly poor in the agriculture sector, through the support of Stabex funds, where EC support has been to a diverse range of initiatives, with no clear strategy guiding the choice of actions, in the context of a weak Government Ministry. This is by no means solely the responsibility of the EC: the overall impact of interventions in this sector has suffered from delays and lack of focus on the part of both donors and government.⁷⁵ However, the EC, generally using Stabex resources, has supported some poorly designed interventions, in particular with insufficient consideration of the likely impact of changes in world prices and labour markets. Past examples include the Small Holder Tea Programme, the Farming Sector Support Programme, and the Silk development programme. As a result of these failings, none of these programmes is likely to have a significant or sustainable impact on poverty. This is particularly unfortunate given the substantial resources invested in these projects over a long period.
- the microprojects programme – to which the EC has committed 40 Mecu – was, prior to the recent restructuring, marked by poor project design, and a misconceived management structure, with weak financial controls and high operating costs. A comparative evaluation suggested that the Uganda programme compared rather poorly to those in other countries.⁷⁶ It is still too early to evaluate the restructured microprojects programme.

The main exception to this poor record has been the health sector. The main EC programme, the Rural Health Programme, was well-targeted from a poverty perspective. As described above, it provided support to a number of relatively poor districts in the South-West and West Nile. The first objective of the RHP/WNHP was to “increase the proportion of the population, particularly children and women, using primary health service and to improve the quality of these.”⁷⁷ This was clearly highly relevant to poverty and the goals of the PEAP. Moreover, the mid-term review concluded that the programme had been relatively successful in building local capacity. Other EC health interventions directed at reproductive health and HIV/Aids, which are also focused to some extent on rural areas, and are likely to have been of disproportionate benefit to women, are also likely to have had a positive impact on poverty. Another intervention with a significant poverty impact was the one-off financial transfer to Coffee Marketing Board.

Future impact will depend largely on success of sector plans

By contrast, the current EC support to the ESIP (through Stabex funds in 2000 and EDF thereafter) is likely to have a significant poverty impact. Primary and secondary education contributes directly to the goals of the revised PEAP. EC support to the ESIP is targeted in principle on primary education (and specifically on a number of the conditional grants made under the Poverty Action Fund). In practice, despite this supposed targeting, EC support to the ESIP is (appropriately in the view of the Evaluators) effectively general sector support. Even so, the ESIP has a very strong poverty focus, and to the extent it is successful, EC support in this area is likely to have substantial impact on poverty reduction. Moreover, EC

⁷⁵ See Country Assistance Strategy, World Bank, August 2000.

⁷⁶ Evaluation of Interventions by the European Commission in the Field of Rural Savings and Credit, Phase 2: Case Studies in Kenya, Uganda and Zambia, Final Report, RIO / EC, October 1997, Appendix 3.

⁷⁷ Financing Agreement no 5192/UG, EDF VII, August 1993.

participation in the design and review of the ESIP is likely to improve the poverty focus of the whole sector plan.

The approach to education should be a model for that in health (discussed in more detail in section 3A, where the EC's current approach gives some cause for concern) and agriculture. With the recent adoption of the Programme for the Modernisation of Agriculture, the EC is considering moving towards a sector approach in agriculture (with support in the short-term for the extension and research components of the PMA, which are perceived to be more advanced components). Given the weaknesses of past EC interventions in the sector, the EC should work closely with other donors in supporting the Government. The poverty impact of the PMA remains doubtful given institutional weaknesses in the Ministry of Agriculture, and the difficulties in developing adequate guidelines for the PMA grant given the severe time constraints (see Section 3.A.i below). It is particularly important that the political pressures for disbursing PMA grants do not weaken other local level initiatives (Local Government Development Programme and PAF).

For the 9th EDF, the EC plans to fund feeder roads. This is consistent with government priorities as set out in the PEAP and PMA, and likely to have a significantly greater poverty impact than previous projects. However, it cannot automatically be assumed that feeder roads have a large poverty impact. Feeder roads programmes will therefore need to be designed carefully to ensure that they do have significant poverty impact. In any case, success in this area is still dependent on the GoU producing a viable feeder roads strategy. This in turn is likely to be dependent on resolution of some at least of the institutional problems described in section 3A.

C. Environment and gender

While some projects in the health sector, and support to the ESIP, are likely to have a positive impact, little progress has been made in mainstreaming environmental or gender concerns in the EC programme.

Gender

There is no gender contact point in the Delegation, and there are no mechanisms within the Delegation for ensuring gender assessments of all EC projects. Consideration of gender impact in financial proposals is largely formalistic.

This failure is particularly marked in the agriculture sector. Women form the vast majority of the agriculture labour force in Uganda, and are particularly likely to be among the poorest subsistence farmers. However, EC projects generally failed to take account of gender issues. For example, neither the FSSP's Financing Proposal nor its Financing Agreement mentions any gender specific targets or activities. In practise, most of the extension advice provided under the FSSP pertained to activities traditionally done by men (planting, pruning, and stumping of coffee) with little attention paid to activities traditionally done by women (mulching and intercropping).

The microprojects programme has had some focus on social infrastructure projects that benefit women particularly, e.g. water schemes. Methods for facilitating women's participation in community planning are to be incorporated in the 8th EDF Micro-Projects Programme and in the proposed Acholiland Programme.

One programme with a potentially large gender impact is the EC's support for UPE. This has already tended to benefit girls disproportionately, since girls were more likely than boys not to attend school prior to the introduction of UPE. Moreover, UPE is likely to have a longer-term positive gender impact, by making it more likely that girls will progress to secondary

and further education. Primary education has also been shown to benefit girls by allowing them greater control over both their economic circumstances and reproductive health.

Environment

The EC in Uganda has no mechanisms for ensuring that all programmes are consistently assessed for their environmental impact. There is an advisor in the Delegation responsible for the environment, but he has responsibility for environment-specific programmes and does not have the opportunity to carry out a cross-cutting role for other programmes, though EIAs have been carried out as part of the preparation of a number of programmes (especially in the roads sector).

The EC has been financing environment-focused programmes in Uganda for a long time, providing considerable funds through 6th and 7th EDF, both NIP and Stabex, to forestry and wildlife tourism (in particular the national parks). Evaluations report significant difficulties in the past (see below), which principally reflect a particularly weak policy and institutional environment.

An environmental assessment of the EC's programme in Uganda was carried out in 1997, resulting in the report *The Road from Rio*.⁷⁸ A Roundtable on Sustainable Development was held in October 1997 in Kampala (facilitated by the International Institute for Environment and Development) with representatives of EC project implementation units, Government ministries, other donors, NGOs, and academics. The Roundtable assessed the environmental impact of EC aid in Uganda in the 5 years since the 1992 Earth Summit, focusing particularly on 4 project case-studies: support for National Parks, projects in the Karamoja, the Forestry programme, and the Kampala By-Pass road. Two particular issues were pursued in these case-studies:

- The difficulty the EC had faced in Uganda in integrating environmental concerns with socio-economic concerns – e.g. the difficulty of balancing environmental conservation in road construction (Kampala By-Pass) and forestry protection (see below), against the concern to minimise the disruptive effects of population displacement.
- The damage and delays that can result when thorough environmental and socio-economic impact assessments are not carried out sufficiently early in the project preparation process. This is particularly evident in the case of the Kampala bypass, where considerable time and resources was wasted because of the failure to consider these issues at the initial design stage (see box in section 3C).

The Roundtable provided an opportunity for the EC to learn lessons about how to improve the environmental impact of its programmes and how to integrate environmental and socio-economic concerns. However, it does not appear to have been systematically followed up.

The EC is now proposing significant 8th EDF programmes (€ 12 million for forestry, and € 5 million to support the Uganda Tourist Board), although the Delegation is very conscious of the difficulties of past programmes and recognises the need for caution. Indeed, it is not yet clear that the institutions being supported will have sufficient capacity and sustainability to absorb the funds proposed..

⁷⁸ The Road from Rio: EC Aid to Uganda Since the Earth Summit, Report of the EC-Uganda Roundtable on Sustainable Development, Kampala, 30-31 October 1997, IIED / EC, April 1998.

Forestry

The final evaluation of the EC's forestry support programme (1988 to 1995) was highly critical. It discussed in particular the extremely high social costs associated with the eviction of 100,000 people from forestry reserves. While the EC was not directly responsible, the problem could have been foreseen or resolved before the damage was done. The evaluation was also critical of the programme in itself, which failed to achieve a number of its principal objectives, though it did succeed in increasing the protection and rehabilitation of Forest Reserves. More recently, attempts have been made to strengthen Government institutions in the sector, but these have not been evaluated (see p. 39.)

Tourism and wildlife

While some components of the EC's tourism and wildlife programme were evaluated to have made a positive contribution to environmental protection (in particular the Protected Areas assessment and plan), their sustainability is not yet assured, particularly given the weakness of relevant institutions.⁷⁹ In particular, the potential impact of the EC programme has been significantly reduced by the near-collapse of the Uganda Wildlife Authority. While the UWA has been re-established, it has continued to be weak, and 8th EDF EC support will not be channelled to the UWA (see p.39).

⁷⁹ Evaluation of the MTWA Tourism and Wildlife Support Programme: Final Report, Dangroup, EC, March 2000.

3

Explaining the performance of the EC's aid programme

This chapter examines the key determinants of the performance of the EC's aid programme in Uganda: the role of EC aid in strengthening institutions (both Government and civil society), donor coordination, and the Commission's own resources and procedures.⁸⁰

A. Support of Government and civil society institutions

i) EC support to Government institutions

The EC in common with other key donors, has largely failed to focus on key institutional issues, either on a project-by-project basis or in a cross-cutting way.

Lack of focus on pay reform and corruption

In common with other donors, the EC has not focused on the key cross-cutting institutional and governance issues such as civil service pay reform and corruption (described in detail in section 1A). While SASP 2 included conditionalities on civil service reform and on a number of tax and tariff issues, and SASP 3 broadened the conditionalities to include the education sector, monitoring of conditional grants, and improvements in financial accounting and auditing at district level, the EC was reduced to requesting *ex post* progress reports (from the Government and TAs). There was never a strategic programme to support institutional developments in these areas or even to monitor carefully (jointly with other donors) the progress in civil service reform. Moreover, in many respects the impact of EC projects has been negative in institutional areas, as set out in section 2A.

Civil service reform, including pay reform, is a particularly important issue. A number of donor assessments have concluded that it is a necessary precondition for achieving wider objectives on service delivery, capacity building and governance.⁸¹ A World Bank mission in April 2000 concluded that:

- the draft pay reform strategy prepared by the Ministry of Public Service is not viable [because it is too expensive to be affordable within the MTEF]
- the draft strategy does not reflect the results of a sufficiently rigorous examination of all the pertinent issues and options.

These conclusions were confirmed in interviews by the Evaluators. However, the EC has not had a strategy for pay or civil service reform, in large part because the EC's focus on project support militated against an examination of such cross-cutting issues.

⁸⁰ This discussion refers also to the EC's efficiency in aid management.

⁸¹ See Uganda Country Assistance Evaluation, June 2000, World Bank.

Not only have donors, including the EC, made little contribution to public administration reform – they have also contributed to weakening public administration by using semi-autonomous project management units and by recruiting Government officials to work in their own projects, through the use of salary top-ups as incentives or through consultancies. As a result of donor pressures to disburse (and competition among donors), the use of salary top-ups by donors is now pervasive in many Government Departments. Despite occasional efforts by donors to harmonise and gradually reduce such practices, they continue, often in a highly non-transparent and distortionary fashion (EC support to the NAO, described in more detail below, is an example).⁸²

A recent World Bank assessment concluded that “IDA’s efforts to build line ministry capacity have been fairly ad hoc, line ministries remain weak, and most still find it difficult to devise sector wide reform and investment strategies that IDA and the donors can support”.⁸³

Not surprisingly, given the shared institutional environment, this assessment also applies to the EC program, as shown in a number of evaluations.⁸⁴

The extreme complexity of EC procedures and conditionalities has also had a negative effect on government institutions. The EC provided a number of TA (to the NAO office and to the Bank of Uganda) but these were mostly used to produce reports required by the EC’s complex procedures and conditionalities (e.g. the justification of imports by country of origin, and reporting of Government expenditure). These requirements (including reviews and assessments, justification for waivers, etc.), which were imposed bilaterally by the EC (rather than jointly by all donors supporting budget support) constituted a significant burden on the limited capacity of Ministry of Finance officials. The Government had particular difficulties in understanding the conditions linked to the CBI tranche.

Significant delays also meant that the counterpart funds have rarely been included in the budgets as originally intended in the financing agreements (e.g. SASP 2 counterpart funds could not be part of the 1994/95 and 1995/96 budgets as initially intended, and SASP 3 could not support the 1998/99 budget)⁸⁵. Delays in the release of counterpart funds also contributed to weaken budgetary management and forecasts by the Government. Moreover, because of the delays, specific conditions that were laboriously negotiated could, in the end, not be implemented.

The possibility of the next EC operation contributing to institutional strengthening will depend on how well it is integrated with both the World Bank PRSC and a joint donor approach to budget support. There have already been encouraging discussions among donors on contributing to a joint fund for Technical Assistance to support the Ministry of Finance. The EC is participating in these initiatives.

Insufficient EC focus on institutional issues within sectors

For the most part, past EC interventions have failed to focus on the key institutional issues within sectors. This is particularly unfortunate, given the importance of sector investment plans in the Govt. planning process, and the increasing pressure for donors to move from project support to sector approaches (see section 1A). Concentration on projects has meant that the institutional environment has often been neglected; for example, in both education and health the EC commissioned a number of feasibility studies for potential projects even when the momentum was in favour of sector approaches. (As discussed below, this problem has now been remedied in the education sector, but it might still remain in the health sector).

⁸² See 1999 Court of Auditors Report, draft.

⁸³ Uganda Country Assistance Evaluation, June 2000, World Bank.

⁸⁴ E.g. HRDP Mid-Term Evaluation, Court of Auditors Report 1999.

⁸⁵ The delay in SASP3 disbursements was partly attributable to the crisis in the Congo

The large number of excessively dispersed interventions – often financed via Stabex – has also contributed to this problem.

Roads sector

As described in section 2A, the broad policy framework is coherent, and a well articulated and internally consistent sector strategy has been developed. However, problems are now emerging with the strategy, and it may be important for the EC to take an active role:

- RAFU has had serious problems in securing qualified staff. At the moment, it is staffed almost entirely by foreign TAs (including those funded by the EC) and it now appears yet more will be recruited. While efforts are being made to develop junior Ugandan staff, there is a question mark over the sustainability of this process.
- There is also a real danger that institutional arrangements in the sector are becoming distorted because RAFU is becoming involved in policy issues (maybe with some World Bank support) and because of the marginalization of the MoWHC (given its poor reputation). For example, the consultants' study on the financing of the Roads Agency will be delivered to RAFU – the embryonic Agency – rather than to the MoWHC. It is inappropriate for the Agency to take a lead role in formulating policy for its own financing arrangements.

As a recent EC mission concluded “The Ministry of Works’ role is changing but a strategy for change is missing”.⁸⁶ Strengthening the capacity of the MoWHC will not be easy, but should not be ignored. The Ministry seems ready to embrace its new role, but realises that “re-skilling” will be required. There is now an emerging realisation amongst some stakeholders, including the EC, that not enough has been done to improve the capacity of the MoWHC to carry out the regulatory, monitoring and policy/planning functions envisaged under the new institutional framework⁸⁷. Whilst there is some doubt about whether EDF-funded support can be sufficiently flexible and timely to assist in capacity building in the Ministry, there is certainly a role for the EC, as second most important donor in the sector after the World Bank, to become more involved in supporting a shift in emphasis in the donor community's support to the institutional reform process.

⁸⁶ Transport Sectoral mission to Uganda and Kenya, 25 July – 4 August 2000.

⁸⁷ Revealed through discussions with the Ministry itself, with the RSDP Co-ordination Unit and with the EDF funded TA in RAFU. The issue is also recognised in an August 2000 report of the transport sectoral mission from Brussels (DEV/A/3) which suggests the possibility of assisting the Ministry of works “to adapt to its changing role”.

Road maintenance and sustainability

Improved maintenance of the main road network is an important sector policy objective for Government. Measured by donor pledges, the GoU has been successful in securing financial assistance for road maintenance, and, because of the positive implications for the future protection of the assets created, for road investment. However, the evidence suggests that whilst the Government has, since 1994/95, probably succeeded in increasing direct spending on main road maintenance, the increase achieved has neither been sufficiently large nor sufficiently steady to represent a genuine fulfilment of the commitments it has made to donors, including the EC. The EC, like other donors, has been too ready to accept that the GoU has been on track as far as its financial commitments to the RSDP are concerned and has given too little attention to road maintenance performance.

One solution would be to ensure adequate funding of main roads maintenance by introducing a road fund financed by earmarked "road user charges". But this risks introducing further rigidities and inefficiencies into the budget process (see GoU's PAF in section 1A-p.8). Economists and finance ministries normally oppose hypothecation for good theoretical reasons.

The importance of the enforcement of axle load controls for the sustainability of investments in roads has been recognised by both the GoU and EC and has been built into their agreements for funding. The GoU has made progress in this area having passed appropriate legislation in 1998 and, with the assistance of another donor, begun successful enforcement on the border with Kenya. However, as illustrated by the SWURMP (see box in Section 3C), the EC's practical assistance in the area of axle load control has been disappointing and showed insufficient commitment. There is some evidence that the EC is not applying the same standards throughout the region; in Kenya, for instance, the Delegation has been taking a strong lead in pressing the Government to improve enforcement of axle load limits. This same forcefulness has so far been lacking in Uganda.

Agriculture

Past interventions were highly fragmented and had no overall strategy to strengthen institutions in the sector, considerably reducing their effectiveness. The way that Stabex funds (see section 3C) were used contributed in particular to this problem.

For example, while the one-off payments to support the restructuring of the Coffee Marketing Board were effective, the support aimed at building a successor institution, the Uganda Coffee Development Authority (UCDA), was not. UCDA's accounting and reporting practices have numerous shortcomings, and the organisation's financial sustainability is questionable. Meanwhile, the extension programme in the Farming Systems Support Programme was planned and then implemented without apparent regard to already on-going efforts by the Government, which were supported by the World Bank, to set up a unified agricultural extension service (National Agricultural Extension Programme, NEAP). In the case of the Silk Sector Development Project, the institutional link was only with the NAO, and no links were made with the Ministry of Agriculture's own National Sericulture Programme.⁸⁸ In all of these projects, the ad hoc and non-transparent use of Stabex resources contributed to the problems.

As elsewhere, many of the difficulties reflected in part the institutional weaknesses in government – in particular, that of the Ministry of Agriculture – and errors on the part of other donors, as well as the EC's own failings. Agriculture has been slower than other sectors in moving towards a sector approach, and the Ministry of Agriculture remains weak.

Looking forward, delay in the development of the PMA has caused a delay in EC support. Much of the 8th EDF NIP allocation to agriculture has been reallocated, although EC funds

⁸⁸ Evaluation of the Silk Sector Development Project: Final Report, Agristudio / EC, January 2000, p.9.

will be made available for the PMA through Stabex, limiting the overall change in support for the sector.

Nevertheless, the Government is keen to push the PMA forward rapidly. There is strong political will to do this, since it formed part of the Presidential election manifesto in 1996. However, the PMA involves a considerable degree of decentralisation: it is uncertain that there is sufficient time to develop adequate procedures and this could weaken the institutional processes of the PAF and the LGDP.⁸⁹ It is in this context that donors have proposed that the PMA should be managed by what is in effect a PIU, namely the PMA Secretariat. It is not clear how sustainable this is, or what its impact will be on the capacity of the Ministry of Agriculture. Since the first year of implementation of the PMA may well be problematic, it is particularly important that there is effective monitoring, to ensure that appropriate changes are made in the second year.

Certain components of the PMA are more advanced than others, e.g. more progress in the development of NAADS (extension services) than in the development of NARO (research). Given this, donors including the EC are willing to support the development of NAADS at a faster pace than the development of the PMA as a whole.⁹⁰ While the rationale for this appears to be to create a successful "pilot" component for the PMA, and while the EC recognises that the PMA is not yet ready for sector budget support, there is nevertheless a risk of advancing quickly with some components while certain core issues have not yet been addressed.

The EC is beginning to prepare project-based support to NARO (from the 8th EDF NIP) to run in parallel with its contribution to sectoral budget support for the PMA as a whole. The rationale for this is to help NARO catch up with other components of the PMA (e.g. NAADS). However, there is again the risk that the continuation of a project-approach will conflict with the general move to a sector approach. If the EC does provide project-based support, it is essential that it should be integrated in the sector and carefully coordinated with other donors. At the moment, there is evidence that the EC is coordinating its activities with other donors in the sector.

Education

The Human Resources Development Program (HRDP) was in part designed to build capacity. However, the project design failed to take into account the institutional constraints imposed by the weakness of the relevant Ministries; and the institutional structure chosen, the creation of a project implementation unit (the TPIU), was in practice very damaging. In particular, the role of the Project Steering Committee, which representatives of government, donors and beneficiary HE institutions, was ill-defined. This institutional flaw proved to be damaging: the mid term review concluded that the project suffered from numerous and deep-rooted institutional problems: *"The major difficulty with the HRDP relates to a lack of strategic management...The lack of mandate, definition and role for the PSC did not assist the implementation team. It was unclear as to which body made overall policy decisions in relation to the programme and as a result the PSC was not always consulted on policy issues. The practice of including direct beneficiaries in the overall decision-making mechanism may also have contributed to a possible lack of objectivity...The lack of financial monitoring has clearly characterised implementation of HRDP."*⁹¹

These lessons should be learnt. However, even now, there is pressure on the Delegation to spend some of the remaining uncommitted funds on small projects, with little poverty focus or capacity building impact, primarily for political reasons. It is to be hoped that this will be

⁸⁹ A study is currently being undertaken to examine how to ensure compatibility between the LGDP and PAF.

⁹⁰ The EC has so far been supporting the secretariat for the development of NAADS.

⁹¹ HRDP Mid-Term Review, Cambridge Economic Consultants

resisted, and that any further expenditures under this programme are fully consistent with the ESIP (see below)

Looking forward, EC support to the ESIP is much more focused on the institutional issues. EC support to the ESIP – while notionally hypothecated to specific areas – in practice functions as general budget support to the sector and is treated as such by both government and the Delegation. This has allowed the EC to participate fully in discussions on the ESIP and to look at the key issues across the whole sector, rather than to simply focus on a few isolated projects or areas. Since it is these issues – the capacity of the Ministry of Education and local authorities, training and infrastructure requirements, teacher's pay, procurement practices, etc. – which will be the key determinants of the effectiveness of donor financial support, this approach is appropriate and can be expected to lead to significant improvements in the impact of EC support.⁹²

The EC has taken a leading role in the discussions of the ESIP, and has focused in particular on the need for improved monitoring and auditing procedures. The ESIP has also been well coordinated with the World Bank's PRSC process. The relative success in this sector, and the EC's positive and constructive role, underlines the extent to which even in sectors where a proportion of expenditure is still likely to be wasted due to capacity problems and corruption, EC participation in a sector approach may have more impact than project support.

Health

The Rural Health Program, as described above, was consistent with the government's overall moves towards decentralisation in the health sector and contributed to the development of capacity in this area. The intervention seems to have been relatively successful in building capacity at district level (see also section 2A). Overall, this program appears to be the most successful of the EC's past interventions.

Support to the Ugandan Blood Transfusion Service (UBTS) recognised the importance of Ugandan government ownership and commitment to the service for the long-run sustainability of the project. EC funds were supposed to be provided in a digressive manner, so that as EC funding tapered off government funding would replace it.⁹³ This was appropriate. However it is still unclear whether the necessary level of government support exists – in the current financial year, the government has failed to provide the level of funding projected and the EC has been forced to fill the gap. Hopefully, this will only be a temporary problem.

In the future the EC proposes to fund human resource development. However, development of the proposal for this project has taken place at the same time as the GoU has been preparing the National Health Strategic Plan. Examination of project documentation does not suggest that this proposal is, as yet, properly integrated within a sector-wide approach. The main Human Resources for Health Study was carried out between June 1998 and March 1999. However, many of the recommendations were overtaken by other developments in the sector, and the consultants were asked to return to "update" their study. As they put it:

"Since the completion of the studies in March 1999 some major developments have taken place with potential major impact on the HRH requirements for the future. These developments include, the organisational restructuring of the MoH, the adoption of a National Health Policy and initiation of a Health Sector Strategic Planning Process under a Sector Wide Approach, the development of a resource envelope as part of the HSSP, adoption for new, more modest staffing norms for District Hospitals and

⁹² Although even here effectiveness is somewhat constrained by EC procedures (see below)

⁹³ Financing Proposal UBTS

progress with the transfer of the health personnel training schools from the MoH to the MOES"⁹⁴.

All of these important institutional, structural and financial changes are still very much in progress. The HSSP is not as far advanced as the ESIP; the Health Sector Review, which took place in October 2000 at about the same time as the ESIP review, was not able to focus on key decisions about resources in the same way as the ESIP. Large uncertainties remain in the environment in which this project is likely to take place. In this context – and particularly given the EC's previous unsatisfactory experience with human resources programmes – the EC's plans to fund human resources for health seem highly risky. It would seem more sensible for the EC to provide as much technical and institutional support as possible to the development of the HSSP (including the human resources element), and then, on a parallel but probably slower track, to provide financial support in the context of a sector approach – as in education – when there is sufficient certainty about the overall financing needs of the sector.

Environment

The EC's past interventions illustrate some of the risks associated with supporting weak institutions. In particular, there were severe problems with the UWA, including financial irregularities; this led to the suspension of the project.⁹⁵ It appears that funds were channelled to the newly created UWA prematurely, before it had established itself on a sound footing. The organisation collapsed rapidly after its creation. It has since been re-established, but its capacity and sustainability appear to be still very weak.

The new project proposal (for 8th EDF NIP funding), as recommended by the recent evaluation, proposes a more narrowly focused project, with no support for the UWA (leaving this to the World Bank, the major donor in the sector) and concentrating on the Uganda Tourist Board (UTB) instead. However, there is still uncertainty about the likely impact, given weak capacity in the Ministry (MTTI), and the need for a new tourism policy (the EC and the World Bank are currently working together to help the Government prepare a White Paper). A recent MFPED review called for the UTB to be transferred to the private sector.⁹⁶

In the forestry sector, recent years have seen an attempt by the EC to strengthen Government institutions (capacity-building, and helping develop a master plan for the sector). However, the Forestry Department is still weak and there have been difficulties in relations between the Department and the EC project.⁹⁷

The proposed 8th EDF forestry programme (€ 12 mill) appears to have been well prepared (with a social impact assessment (SIA) and an EIA as well as wide consultation with stakeholders – it therefore appears to have learnt some lessons from past difficulties) and is intended to work within a new institutional framework. However, there is a risk that the project may be premature. The National Forestry Authority (NFA) is not yet in existence, and if there are delays in its creation or it experiences difficulties, the EC's project will be affected.

⁹⁴ Group 5 report on Human Resources for Health, September 2000

⁹⁵ Evaluation of the MTWA Tourism and Wildlife Support Programme: Final Report, Dangroup / EC, March 2000, pp.6-7.

⁹⁶ Review of Publicly Financed Institutions that Promote Private Sector Development: Executive Summary, MFPED, Kampala, May 2000, pp.18-19.

⁹⁷ Interview with EC project team leader.

Looking forward: Sector approaches

One theme that runs through the above is clearly that of the general move towards sector wide approaches. However, the EC appears to have a number of difficulties with the sector approach. The Head of Delegation notes that a gradual approach is necessary, "Proceeding otherwise would be inviting trouble, in the form of mismanagement, misappropriation of funds and missing the objectives."¹ In the view of the evaluators, however, these problems are not specific to sector programmes – as the record above indicates, they have been pervasive in many EC projects. Moreover, as a number of participants in the successful education sector process stated to us, it is likely that in the early stages of a sector programme some funds will be badly spent. Nevertheless, if the sector programme is well structured, this is part of the learning and capacity building process that will enable the government, with the coordinated help and participation of donors, to progressively improve the quality of its spending. By contrast, unsuccessful projects leave little to build on for the future.²

In order to maximise the positive impact of sector approaches, the EC (together with other donors) will need to address some important issues:

- **conditionalities:** under what circumstances should funds not be disbursed? In general conditionalities should be reasonably clear, objective, parsimonious, and carefully coordinated with other donors. They should also be sector-specific (since withdrawing funds from a sector because of wider governmental failures would tend to demoralise those working in the sector). They should be distinguished from targets; it may be necessary and indeed helpful to set ambitious targets, but it is not appropriate or realistic to make disbursement conditional on achieving them;
- **despite the above,** it should be clear to the government that political realities mean that moving to a sector approach – where the money goes through the government budget – means that ultimately disbursement is subject to political decisions (which is less clear in the case of the project approach). That is, egregious human rights abuses or international "misconduct" may lead to withdrawal of funds. The government has to be prepared to accept this risk as a trade-off for the greater flexibility afforded to it by this approach;
- **earmarking:** this is generally inconsistent with the sector approach, and the EC should try to move away from earmarking of funds (as it is doing effectively in education, but not as yet in health). For a fuller examination of the issues involved, see the section on the Poverty Action Fund (section 1A);
- **auditing and reporting requirements.** It is clearly important for the EC (and other donors) to see how their money is being spent. However, it is wasteful to prepare audits or reports specifically for the EC or in a format tailored for one donor. Instead, auditing and reporting should be integrated into the sector plan in a way that is not just useful to satisfy donors, but helps the government in the development of future strategy. Initially, in order to support the development of the Government's audit capacity, sector audits will require significant involvement from the donor community as a whole.

1. Comments of Head of Delegation on draft report, January 2001.

2. It is likely that some of the funds provided by the EC to support the ESIP will be misappropriated or wasted. However, the EC's previous project support in the education sector – the HRDP – had very little success. Overall, the contribution of the EC to development in Uganda is likely to be substantially greater via the sector approach.

ii) EC support to civil society

There has been little EC support targeted directly at strengthening civil society in Uganda. The EC's main contribution in this area (principally through the 8th EDF) is a number of programmes intended to strengthen the capacity of local governments as part of the process of decentralisation.

In general the EC has had limited contact with civil society organisations in Uganda. As noted in section 1.B, civil society was not involved in the preparation of the EC's country strategy in 1996-97. The EC has not engaged in regular consultations with civil society on its portfolio of projects or on ways in which the EC could help to strengthen civil society. The

EC's regular contacts with civil society have been through the consultations initiated by DENIVA on the post-Lomé treaty. While DENIVA noted that these meetings were a valuable means of sharing information, the EC appears not yet to have strengthened its support for civil society, though the Cotonou Agreement should provide greater scope for this.

Some direct support to civil society has come through budget-lines. The Uganda Decentralised Development Cooperation Project (financed through the decentralised cooperation budget-line) provided a series of pilot projects, including twinning municipal councils and civil society actors in the UK and Uganda, and providing capacity-building for municipal councils. According to the recent evaluation, these pilot projects were successful, the main weakness being that they were not then translated into a larger-scale programme funded through the NIP. According to the evaluators, this weakness reflected a lack of will both in the EC Delegation and in the NAO.⁹⁸

The EC's main potential contributions to strengthening civil society and local government lie in two areas:

- Recent micro-projects, in particular Water and Environmental Sanitation in Rural Districts (7th EDF, € 5 mill) and the 8th EDF Micro-Projects Programme (€ 15 mill). These provide for a combination of social infrastructure projects identified and implemented through local authorities, combined with capacity-building support for the local authorities. The impact of these interventions is as yet uncertain – see Box.

The contribution of micro-projects to decentralisation

In the 7th EDF programme, EC micro-projects had limited effect in strengthening civil society or local governments. The micro-projects that were supported in Uganda tended not to involve institutional development. Social infrastructure micro-projects tended to involve physical construction, e.g. water facilities and bridges, while a significant part of the EC's micro-finance support consisted of 'retail' operations, rather than supporting existing micro-finance institutions.

By contrast, the substantial 8th EDF Micro-Projects Programme (€ 15 million) is an attempt to combine social infrastructure projects with institutional support for the decentralisation process. (The recent 7th EDF Water and Environmental Sanitation in Rural Districts programme embodied a similar approach.) The programme is intended to be linked to district planning and budget processes. It is also positive that (following criticisms made by Member States at the 345th EDF Committee) the Project Management Unit was put under supervision of the Ministry of Local Government to improve coordination with other decentralisation initiatives.

However, the funds will go direct to special accounts held by district and sub-county administrations, and will not pass through the PAF. In the context of sector approaches, the rationale for an independent approach is not clear and such an approach runs the risk of competing for the attention of local government officials. This concern was expressed by Member States, who did not approve the financing proposal at the November 1999 EDF Committee meeting.

It is also as yet unclear how some of the provisions of the programme will be implemented in practice. Firstly, while line ministries are involved through the National Technical Committee, there is a risk that this committee will be weak, which would significantly reduce the degree of coordination across sectors. Supervision of the team of implementing consultants could also be affected. The role of the NAO and EC Delegation as the ultimate decision-takers may create difficulties given their respective weaknesses. There is also a risk of limited participation by beneficiaries. While planning and implementation will be in the hands of local administrations, it may be difficult to achieve participation at community-level. Admittedly this is often a difficulty in such programmes, however in the case of funds being channelled through the PAF, the introduction of civil society monitoring committees (see page 3) is already increasing accountability to local communities.

- The 7th EDF Uganda Health Programme (€ 24 mill) in the south-west of the country and in the West Nile region was implemented through local authorities, and seem to have involved effective partnership between local authorities and civil society organisations, as well as capacity-building of local authorities.

In addition, the EC has developed proposals for some new programmes that would be aimed at strengthening civil society and local governments:

- The proposed governance programme (€ 5 mill) includes components intended to build capacity among human rights organisations, to carry out civic education, and to increase the capacity of local government.⁹⁹ While some components are to be implemented in close collaboration with Danida, the impact is likely to be limited by the small scale of many components and by the complexity of coordinating and monitoring a fragmented programme.
- The proposed programme in Acholiland (€ 4 mill) is intended to support service delivery through local governments in the districts of Gulu and Kitgum (in the north of the country). 50% of funds will be budget support for districts and sub-counties, and 32% will be for capacity-building and community mobilisation. The principal risk associated with the programme appears to be an increase in the level of conflict in the area – the financing proposal notes that the programme cannot be successfully implemented in a conflict situation.

B. Donor coordination

Uganda has a relatively strong budget planning process. However, budget implementation and controls are weak, particularly in line ministries and districts. The Aid Liaison Department in the MFPED - and the NAO office - have also weak capacity. Uganda continues to be a country which a number of donors prioritise in their aid programmes. In this context, while there are a number of coordination initiatives, and donor coordination has improved in the last two years, there is also a degree of donor competition. Sectors that have made the greatest progress in moving to a sector approach (e.g. education) also tend to be those with the best donor coordination arrangements.

Government's framework for coordination

The GoU has a relatively strong planning and budgetary process in which donor initiatives could be integrated. This framework includes consultations with civil society. A number of sector strategies should also contribute to integrating donor initiatives (e.g. most recently the PMA and private sector support). However, donor coordination is affected by the serious weaknesses of line ministries (e.g. Ministry of Transport) and of the donor coordination unit (Aid Liaison Department) in MFPED.¹⁰⁰ In many cases, sectoral units in the MFPED are supposed to coordinate line ministries' initiatives (e.g. on the PMA and the transport sector), but this probably overstretches the capacity of the central ministry and may be unsustainable over the longer terms.

⁹⁸ Evaluation of the 'Decentralised Cooperation' Budget-Line: Mission Report Uganda, GRET / EC, March 2000, p.25.

⁹⁹ 'Support to Human Rights, Democratic Principles, Rule of Law and Good Governance'.

¹⁰⁰ Note however that the MFPED is currently conducting a review of the capacity of its aid coordination capacity as part of Vol. III of the PEAP.

The NAO office ('EDF Unit') is located in the Aid Liaison Department of the Ministry of Finance, and the Commissioner of the Aid Liaison Department is a Deputy NAO. While this could be an appropriate institutional structure in principle, in practice this Department – which has wider donor coordination responsibilities – dedicates a disproportionate amount of its attention to dealing with EC interventions. A number of officials in the Department, as discussed elsewhere, receive substantial top-ups from the EC (as noted most recently in the draft Court of Auditors report). Other donors noted that this Department does not in practice carry out substantial coordination work with them. Moreover, our interviews indicated that the integration of this department with expenditure departments within the MFPED is relatively weak. In this context, the EC does not appear to benefit fully from adequate integration into the Government's budgetary framework (– see section 3.C on Resources and Procedures). Therefore, by supporting and working through the NAO office and international consultants,¹⁰¹ the EC has had difficulties in integrating its projects adequately into Government processes,¹⁰² and to coordinate with other donors.

While there have been some improvements in donor coordination and somewhat greater transparency in EC interventions in the last two years, there is still much scope for improvement. Resources and procedures used by the EC in Uganda have not contributed to increasing transparency (see next section), and the limited scope of decision-making by the Delegation has also made coordination more difficult (e.g. in the transport sector). The limitations on the number of staff has also led to the delegation of some policy coordination functions to TAs (e.g. in the health sector, and in support to micro-finance). However, the Delegation has recently reinforced its staff, and it is expected that Delegation advisers will be in charge of policy coordination in their sectors.

Donor coordination at strategic level

Donors' head of delegations have monthly meetings (generally chaired by the World Bank) in which general and overall economic issues are discussed and information exchanged. In addition, there are monthly meetings between the Heads of Delegations of EU Member States and the Delegation, which discuss general political and economic issues, like Uganda's involvement in the Congo crisis, military expenditures, good governance and corruption (see Section 2A).

On a more working level, there are numerous sector sub-groups (and indeed sub-subgroups and technical working groups), chaired by different donors: the EC chairs subgroups on roads, education and health. In areas where progress has been made towards the development of sector plans, these subgroups play an important role. In others, they are more directed at the exchange of information rather than genuine coordination. However, there is certainly no shortage of formal mechanisms for coordination.

In the past relations between some key donors have been very poor (e.g. between the World Bank and the EC). However, interviews indicate that most MSs and other donors believe that, since the arrival of the current EC HoD, the EC has been more active in participating in donor working groups. The EC is also beginning to circulate financial proposals among MSs, although this is still not done in a systematic manner. It is expected that the formulation of the new Country Support Strategy should contribute to developing systematic and efficient channels of consultation with MSs.

The World Bank has also significantly increased its consultations with other donors, focusing on support to the PEAP and in the formulation of the PRSC. However, a number of donors still believe that the World Bank needs to adjust its coordination methods (i.e. a large team of

¹⁰¹ This was also criticized in the 1996 evaluation of the NAO, particularly the sectoral TA who were placed in the NAO office.

¹⁰² In particular Stabex funding (see section 3.C on Resources and Procedures).

consultants on mission and a number of workshops) towards an on-going consultation process with other donors in the field. Some donors still believe that a number of these initiatives are mostly World Bank-driven. Participation in the PRSC needs to be made more systematic (as with the integration of the Education Sector Review into the PRSC process).

More generally, a number of bilateral donors also believe that it is necessary to pressure the BWI into a more effective stand against corruption and increased defence expenditure. For example, a number of bilateral donors were surprised that at the beginning of 1999, (when the IMF suspended its ESAF review because of serious governance problems in the privatisation of UCB and the privatisation process in general), IMF representatives in Uganda argued that bilateral donors should nevertheless continue to disburse their bilateral programmes. In this context, some donors now realize that they could influence the actions of the BWI through their executive directors in Washington and they appear willing to try to use this influence in order to ensure that the political context of development is taken into account in the BWI programmes in Uganda (e.g. anti-corruption measures, control of defence expenditures, etc.)

Discussions in the Consultative Group (for which there have been 12 meetings since 1986) have resulted in a number of initiatives but few concrete results (e.g. in the area of corruption). There is some scepticism that the PRSC will actually be able to deliver in the difficult areas of procurement, civil service reform and anti-corruption. Discussions are now taking place as to how to make the CG process sharper in focus and how to include thorough monitoring of performance.

Reducing donor competition

There is also a significant degree of donor competition in Uganda, across a number of dimensions:

- Given the relatively favourable policy environment compared to other countries at a similar level of development, many donors have been seeking to increase the size of their portfolios in Uganda, which is already a heavily aid-dependent country. In a context of weak institutions, this may have contributed to further weakening in Government capacity.
- The slow progress of pay reform has resulted in a situation in which donors have reintroduced non-transparent salary top-ups to Government officials for the implementation of their own interventions.
- There has also been a reliance on parallel Government structures (e.g. project implementation units in core Government functions).

None of this has contributed to institutional strengthening.

There has still been very little specialization of donors on the basis of their comparative advantage, and most donors still want to be part of sectors that are considered important. This is creating significant competition and conflict between donors, as this mission observed, in the context of recent EC attempts to expand its interventions in micro-finance. This effort has been insufficiently coordinated with other donors, including GTZ, and has generated very negative reactions. A culture of openness among donors still needs to be reinforced. It would be desirable, for example, that all relevant sector information should be published in a web-page up-dated by the lead donor in each sector.

Sector-wide approaches, as in education, may begin to overcome some of these problems. However, there are still difficulties in most line ministries (e.g. agriculture and transport). Meanwhile, a number of Codes of Conduct have been signed on principles to follow for donor allowances, but these are not being followed up. For example, it would appear that

even the EC support to the NAO includes allowances which do not comply with existing codes of conduct.

Coordination at sectoral level

Sectoral meetings vary in their efficiency. In some cases, groups and sub-groups are not well integrated and planned and tend to over-burden the capacity of donors. Coordination meetings have been unable to deal with substantial issues (e.g. use of non-transparent allowances by donors and openness about corruption in donors' own projects). However, some progress is being made in the context of the education sector approach (although the large number of donors involved makes effective coordination difficult). It is important to avoid a common experience of the past, namely having a large number of consultants financed by the EC and other donors carry out diagnostic studies that have already been carried out by other consultants and/or that are not properly integrated with overall sector plans¹⁰³. However, this experience has been repeated already in 2000, in the context of a number of diagnostic missions in the private sector (see box).

Structural adjustment/budget support

Coordination with the World Bank on budget support has in the past been very difficult; the EC has always been handicapped by its limited staff resources.

The problem of donors negotiating and reviewing conditions on their budget support bilaterally with the Government is a serious one.¹⁰⁴ It not only reduces the transparency of the process and introduces confusion, but it is also very time-consuming for the Government (e.g. the Government needs to produce specific tables and reviews for each individual donor, and needs to have discussions with a multitude of separate consultants).

Until the PRSC, donors had given limited thought to the benefits to the Government of the joint identification of conditionalities by donors and the Government. Coordination on the PRSC appears to have improved (e.g. the PRSC has included the conditionalities proposed jointly by donors in the Education Sector Review). However, some donors still feel that the PRSC is too dominated by the World Bank and its large missions of consultants which do not take fully into account the on-going coordination in the country by bilateral donors. There appears to be room for more flexibility. Work has begun on the adoption of a common approach for budget support and a common fund for technical assistance in the Ministry of Finance. The EC is participating in these initiatives.

There would be considerable advantages, both to donors and to government, to an approach in which conditionalities are agreed jointly by major budget support donors, and reviewed jointly at a technical level. This would not exclude the possibility of donors reserving the right to make individual political judgements on non-technical matters (military interventions, human rights situation, level of corruption, etc.) Other donors (the World Bank, DFID) in principle favour such an approach. The EC appears to be supporting these efforts, and it is expected that the next EC operation (PABS 4, € 75 million) will be fully integrated into this approach. This would require that the financing proposal (to be completed before the end of this year) allows the necessary flexibility for this to happen. At the moment, the draft proposal still includes conditionalities which are potentially EC-specific.

¹⁰³ This appears to have been the case in both the health and education sectors.

¹⁰⁴ For SASP 2, the EDF Committee even introduced, at a very late stage, an additional conditionality (an assessment of the recurrent cost implications of UPE on the Government budget.) This conditionality was accepted by the Government only in March 1998.

EC Private Sector Support: Donor competition

The EC has had a number of small programmes supporting the private sector in Uganda. These programmes have in general not been very effective (e.g. rehabilitation of the smallholder tea sub-sector or the support to the Uganda Investment Authority). In particular, the micro-finance components of micro-projects programmes have been severely criticized in their evaluation (for both their management and their design).

The Government approved a strategy for the private sector in July 2000 (Medium-Term Competitive Strategy) and is to establish 6 working groups to coordinate work in this area.¹⁰⁵ However, the EC, although it participates in the working groups, until now has had some difficulties to support the Government. The revolving funds of the poorly performing EC micro-finance component (of the Micro-projects programme) have financed a support programme for financial institutions (SUFFICE, April 2000) which provides not only credit lines and bank guarantees to MFIs, but is intended to support standardized performance indicators and rating, support capacity-building matching grants, and the dissemination of information.

However, the implementation of SUFFICE has resulted in significant conflict both with a Diagnos consultancy team sent from EC Headquarters and with the GTZ team responsible for the financial sector. As in other sectors, many of the problems can be attributed to the fact that the economic adviser does not have the time to monitor developments and participate in coordination with other donors. In this context, the TA is able to take policy decisions with relatively little supervision.

Interventions in the private sector (and particularly in micro-finance) need to take carefully into account the Government's new strategy, and should be carried out in coordination with other donors. The very short missions of the Diagnos consultancy team late last year and during 2000 were (probably correctly) criticized by the SUFFICE team (supported by the Head of Delegation) precisely because Diagnos did not sufficiently take into account the interventions by GTZ. It was argued that no intervention would be successful without support from GTZ (note of July 2000). Moreover, at the time, the Government argued (correctly) that a proposed study of the Programme of Commercial Justice Reform support was unnecessary given the active role of many donors (and the July 1999 study).

However, it would appear that the SUFFICE TA team was focused on having EC Headquarters approve its (July 2000) proposal that the management of project design and the feasibility study for a draft financial proposal should be transferred to themselves (under the supervision of the Delegation). While this proposal was approved, during a meeting in the German embassy the evaluation mission received a very strong complaint about the lack of transparency of the SUFFICE team.

Given the poor results of previous EC interventions in the private sector, it is essential that the SUFFICE extension should be carefully considered in a working group of Government and donors and should be part of a joint donor initiative. As in other sectors, policy coordination should be in the hands of the Economic Adviser and not with the TA. It appears that future EC sector studies will be coordinated with those of other donors and EC support to Commercial Justice Reform will, as the EC proposes, be fully integrated with other donors' support.

Roads

Donor coordination has improved significantly in the last 2 years. There are now quarterly meetings of the Steering Committee for the Road Sector Development Programme (RSDP) organised by a secretariat, the RSDP Co-ordination Unit in the MFPED. The EC takes an active role. Relations between the World Bank and the EC, in particular, seem to have also improved considerably. However, as discussed above (section 2A) there appears to be a risk that the institutional framework in the roads sector will be distorted by the weakness of the MoWHC and the response to that by the World Bank; meanwhile other bilateral donors may simply opt out (or refuse to opt in), and continue to work through individual projects (relations between Danida and the World Bank remain poor). Moreover, coordination is less good as regards the proposed feeder roads programme. More donor coordination in this sector would be beneficial.

¹⁰⁵ Reforms in Infrastructure Provision, Strengthening the Financial Sector and Improving Access to Credit, Commercial Justice Sector Reform, Institutional Reforms and Export Sector Issues, Improving Business Environment for MSEs, and Private Sector Growth and Globalisation.

Agriculture

Donor coordination by the EC in the agriculture sector has in the past been weak. The EC portfolio in the sector has been fragmented, and the degree to which support has been financed through Stabex has reduced the scope for coordination given the weak integration of Stabex interventions into the Govt. budgetary planning cycle and the lack of transparency associated with the use of Stabex funds.

In the past, the EC has not had the capacity to support the development of the sector approach, this being left to DFID and Danida. More recently, Delegation staff have had the opportunity to carry out some monitoring of the PMA process, and they are engaged in on-going consultations with other donors. The EC is currently trying to recruit a TA to support the PMA process – it is proposed that this TA will have a wide-ranging remit, which should allow him or her to support other donors too, not just the EC. It is essential that the EC's support for the PMA should be carefully coordinated with that of other donors, and that all PMA support should be carefully coordinated with other initiatives, including the PAF and the LGDP.

The EC is also contemplating project-based support to NARO (8th EDF NIP) to run in parallel with its contribution to sectoral budget support for the PMA as a whole. If the EC follows this through, it is particularly important that it should be integrated in the sector approach and closely coordinated with the efforts of other donors.

Education

Donor coordination is strongest in the education sector. The Education Sector Review, which was under way during the period of our evaluation visit, comprises a process in which donors and the government jointly take stock of progress with the Education Sector Investment Plan, both in a retrospective way (monitoring of achievements and identification of problems) and a prospective one (setting targets). While this process is highly labour-intensive both for donors and the government – and is certainly not without its problems and tensions (both between different donors, and between donors and government) it nevertheless ensures a degree of common ownership of the overall program. It also allows donors to determine, and hence to specialise in (at least to some extent) areas of comparative advantage.

With the arrival of a new education adviser (a detached expert from DFID) the EC has been able to take a leading role in this process. The EC's new role has been welcomed by other key donors (the World Bank and DFID, with whom there have previously been some tensions). This new approach represents considerable progress, since previous EC interventions were not well coordinated, (e.g. the EC sector studies for ESIP effectively duplicated the work carried out by other donors) and there was significant conflict between donors over whether and when it was appropriate to move to a sector approach. The Evaluators commend the EC's approach in this sector and hope that it will serve as a model for other sectors.

Health

A number of other donors (the World Bank, DFID, DANIDA) are seeking to support the HSSP. The EC is not as yet providing sector support. As noted above (section 3A), the EC proposes to provide support for human resource development in the health sector. Although this is intended to be within the overall framework of the HSSP, questions remain as to whether this project will be properly coordinated with other sectoral interventions, particularly given the EC's prior unsuccessful experience with human resource development in a changing institutional environment.

C. Resources and procedures

As in other countries, the EC's ability to engage in policy dialogue and donor coordination is constrained by the Commission's limited capacity and time-consuming administrative procedures. However, in Uganda the EC's common difficulties with resources and procedures have been exacerbated both by strategic decisions made regarding the use of EC aid instruments, especially Stabex, which have resulted in a highly fragmented and non-transparent portfolio of projects and a low level of transparency. There have been also serious weaknesses in the NAO office. As a consequence, there have been particularly weak managerial and financial controls on EC project and weaknesses in the project cycle.

Fragmented portfolio

The EC's project portfolio in Uganda has, particularly in the past, been fragmented, with many sectors, and a large number of small, often isolated interventions. The project-selection process is *ad hoc* rather than strategic. The intention in having a dispersed portfolio may have been to accommodate demands from various Government units and for political reasons, to increase the visibility and public profile of EC aid. This represents what one interviewee described to us as a "Santa Claus" approach. It has resulted in little EC influence at policy level and large administrative demands and complexities in project-management (reducing the actual time available for analysis and policy dialogue). This in turn has limited the EC's ability to gain expertise in specific areas, and reduced transparency.

More recently, this fragmented approach is being modified. Moreover, the move to sector approaches has brought more focus to the EC portfolio and is allowing the EC to start building some expertise, and is making it easier for staff to engage in policy dialogue and donor coordination.

EC funds have been spread across a wide range of sectors in the 7th and 8th EDF: roads, education, health, agriculture, forestry, tourism, micro-projects, elections, water, and private sector development. Within some sectors, there has also been dispersion in the sub-sectors of EC support – e.g. in the health sector, the EC has moved from support for decentralised health services with 7th EDF funds to 8th EDF support for sexual and reproductive health and for human resource development (proposed). In addition, with a number of exceptions (SASPs, road programmes, the Uganda Health Programme), the average project-size has been small, with EC funds fragmented across a large number of small projects. The average size of 7th EDF NIP project commitments was only € 5.9 million.¹⁰⁶ A number of programmes have been fragmented across several financial commitments, in particular where funding from the NIP and Stabex has been combined (e.g. smallholder tea). The Box illustrates this through the 'Micro-Projects Programme', which consisted of a fragmented arrangement of projects.

¹⁰⁶ 7th EDF national funds excluding Stabex, SASPs, studies, funds for the EIB and emergency assistance. Source: own calculations based on OLAS: Livre des comptes par pays, Ouganda, September 2000.

Fragmentation of the Micro-Projects Programme

The 7th EDF 'Micro-Projects Programme' (MPP) was highly fragmented, with a series of new projects added disjointedly. This created a need for a large and complex management structure, with a central coordination unit financed through a separate financing agreement (the Micro-Projects Coordination Unit, MPCU), and regional PIUs, each with considerable budgetary autonomy. The micro-projects instrument gives a strong role to implementation units, and these have had a particularly large and diverse workload in Uganda. The evaluation of micro-finance support argued that the social infrastructure micro-projects should have been managed separately from the micro-finance projects.¹⁰⁷

The following table listing 7th EDF MPP commitments illustrates the fragmentation of the programme:

| Source | Project No. | Name | € million |
|-------------------|-------------|---|-----------------|
| NIP | 7 ACP UG 9 | Fourth MPP | 4.5 |
| NIP | 7 ACP UG 21 | MPP in the West Nile | 3 |
| NIP | 7 ACP UG 42 | Rwanda Border Rehab. Progr. | 1 |
| NIP | 7 ACP UG 47 | Small-Scale Enterprise Dev. Progr. | 2 |
| NIP | 7 ACP UG 65 | 4 th MPP for Karamoja Region | 2 |
| NIP | 7 ACP UG 68 | Support to MPCU | 2.1 |
| NIP | 7 ACP UG 70 | Water & Environmental Sanitation | 5 |
| NIP | 7 ACP UG 80 | Ceiling increase re MPP 6UG38 | 0.003 |
| SASP CPF | 13-48-23-7 | Management of Micro-proj. Unit | US\$ 396 mill |
| SASP CPF | 13-48-23-14 | Micro-proj. Completion Phase 2/3 | US\$ 758 mill |
| Stabx 90 CPF | 80693-31 | MPP ca/98/16 | US\$ 1,200 mill |
| Stabx 90 interest | SXI90.7 | Microprojects Loan Recovery | 0.06 |

In the 8th EDF, some focus has been brought to micro-projects by financing all social infrastructure micro-projects through one large, coherent programme (€ 15 million), with its management separated from that of micro-finance.

However, funds for micro-finance are now being channelled through SUFFICE, which is itself not sufficiently transparent as yet. Funds for SUFFICE are pooled from the Revolving Fund of the MPP and undisbursed funds from other micro-project components (following the recent restructuring of the MPP in the wake of a critical evaluation and an internal review). As a consequence of the source of SUFFICE funds, SUFFICE does not appear as a separate project in the comprehensive listings of EC projects in Uganda (it appears neither in *OLAS: Livre des comptes par pays*, nor in the Delegation's *Project Funding Analysis Report (Detailed)*).

Stabex funds have been used in a very fragmented way. Stabex funds have financed a large number of small initiatives, and individual projects have been financed from a variety of different Stabex allocations (including from the substantial sums of interest accumulated through implementation delays). By May 2000, a total of 96 project commitments had already been recorded in the Delegation's *Project Funding Analysis Report* for 7th EDF Stabex funds. Excluding the € 15 million recently committed to budget support for UPE, that implies an average size of a commitment of only € 1.1 million.

The degree of fragmentation has recently been somewhat reduced. The allocation to the roads sector was raised from 39 % of the 7th EDF NIP to 52 % of the 8th EDF NIP.¹⁰⁸ Stabex funds are now funding larger interventions, e.g. budget support to UPE and the PMA. € 15 mill was disbursed to support UPE earlier this year (from the Stabex 93 allocation), and approximately

¹⁰⁷ Evaluation of Interventions by the European Commission in the Field of Rural Savings and Credit, Phase 2: Case Studies in Kenya, Uganda and Zambia, Final Report, RIO / EC, October 1997, Appendix 3, pp.16 and 21.

¹⁰⁸ As amended in 1999.

€ 15 mill will be made available to support the PMA, though the latter will be pooled from a variety of sources.¹⁰⁹

Lack of transparency

The EC portfolio in Uganda has lacked transparency, making project-management more complex. The lack of transparency has in turn made it possible for some projects to continue to receive funding in spite of running into difficulties, especially through Stabex 'bridging' finance (see below). The portfolio has lacked transparency for a number of reasons:

- *Fragmented portfolio.* The large number of sectors of intervention, the pooling of funds from a variety of instruments, and the large number of individual projects have combined to make it hard for observers to perceive a clear strategy.
- *Limited dissemination of information.* The EC Delegation has not systematically prepared annual reports, country reviews or audits, all of which are important tools for transparency (see section below on Weak Learning Systems).
- *Large volume of Stabex funds.* Stabex funds have allowed the EC flexibility, but the large volume of Stabex funds, combined with the fact that Stabex (and some SASP) funds have been used for projects across a range of sectors, has reduced the transparency in the funding of projects.
- *No clear rationale underlying use of Stabex funds.* Stabex funds have not followed the logic of the Stabex instrument, have not always followed the NIP strategy, and have, in a number of cases, not been used for the purposes specified in FMOs. While Stabex has been used for agricultural support and for diversification, it has also been used in unrelated areas (e.g. NAO support, forestry, primary education).¹¹⁰ Departures from FMOs are documented extensively in the draft Court of Auditors report (pp.21-26). For example, the Court records that out of € 40 million available from Stabex 91, as much as € 9 million had been used outside the areas agreed in the original FMO. And while a Rider was drafted in 1998 (5 years after the FMO signature, the Rider had still not been signed by the time of the audit mission.¹¹¹ While Stabex allocations have provided flexibility to the EC to respond to perceived immediate needs, they have in effect been used as a "slush fund", supporting interventions across a range of sectors. While the short-term pressures on the Delegation to use Stabex in this fashion are understandable, the interventions supported by Stabex in this manner have been found by the Evaluators to be ineffective as well as non-transparent. However, the Evaluators recognise that the EC has recently taken some steps to improve the management of Stabex funds.
- *Funding of individual projects from multiple sources.* A number of projects have received funding from both NIP and Stabex funds, and several projects have received funds from different Stabex allocations at the same time (proposed PMA, see 109).
- *Use of SASP counterpart funds for project support.* 10% of SASP 1 counterpart funds were reserved for project commitments, supporting NIP projects and a range of other interventions (see Box on p.56).

¹⁰⁹ According to the Project Funding Analysis Report (Detailed) by 10/05/00, € 3.9 mill will come from Stabex 91 interest, Stabex 92 and Stabex 92 interest. In addition, Ush 17.4 bill will be committed from the counterpart funds generated by the Stabex 90 General Import Programme – equivalent to approximately € 11.5 mill at the current exchange-rate. Further funds for the PMA may be made available from Stabex 99.

¹¹⁰ In some cases (e.g. support to UPE), though, the support in other areas may be effective.

¹¹¹ Draft Court of Auditors Report, p.24.

The lack of transparency has made it possible for project difficulties to continue unresolved. In the agriculture and environment, there are a number of programmes which were originally funded through the NIP and for which Stabex funds have been used as 'bridging' finance to extend their lives. In some cases, the 'flexibility' provided by Stabex funding has allowed the continuation of projects which seem to have run into difficulties, creating a situation in which budget constraints on EC projects appear not to be hard (see Box for a number of examples).

The use of Stabex finance to continue programmes in difficulty

Coffee

In the coffee sub-sector, Stabex allocations have largely been *ad hoc*, responding to *ex post* realisation that the focus of a particular intervention was not the right one. The delay in the mid-term review of a 6th EDF programme funded through the NIP¹¹² resulted in 'bridging' finance from Stabex. 3 years of 'bridging' finance were eventually financed (1993 to 1996) to a total of € 5.3 mill, equivalent to 33% of the original cost estimate of the programme. During this period, all components of the original programme except research were discontinued or transferred to other organisations. Since 1996, a further € 2.1 million of Stabex funds has been committed to continue financing coffee research, through the Coffee Research Centre (COREC). (Stabex 91 and 92). Stabex payments to COREC were suspended earlier in 2000 pending a review of the programme and an evaluation of recent performance, after the present direction of research at COREC was called into question.

Tea

The tea factory component of the 7th EDF Smallholder Tea Development Programme (STDP) has faced difficulties from the start, linked to insufficient scale. Extra disbursements, which have been financed from Stabex funds, have been used to keep the tea factories financially afloat as well as to extend grace periods on loans to farmers during periods of low prices. Hence, whereas the Financing Agreement originally specified € 20 mill from the NIP and € 7.8 mill from Stabex funds, actual spending by the end of the project was € 12.2 mill from the NIP and € 14.2 mill from Stabex. A further € 2.9 mill from the original NIP has been allocated towards the Consolidation Phase of the programme, in which efforts are being made to ensure that project objectives are met. However, the combined total cost of the STDP and its 6th EDF predecessor (the STRP) is € 50 mill, a large sum considering the tea factories remain in a precarious financial situation¹¹³ and there is still a risk that the privatisation process will end in a buy-out, which would undermine the project rationale of empowering smallholders.

Forestry

Since the end of the previous (6th EDF) forestry programme, the EC has continued to support the forestry sector through 5 years of Stabex 'bridging' finance (€ 3.2 million from Stabex 91 interest payments, and € 3.7 million from Stabex 92). The rationale for using Stabex funding appears problematic. It appears to have reflected a recognition that it was too early to prepare an NIP project proposal (given the critical evaluation in 1996, and the extremely weak capacity of the Forestry Department at the time). Only now, with the imminent creation of a new National Forestry Authority, is a proposal for further NIP funding to be put to the EDF Committee.

Silk

The evaluation of the Stabex-funded Silk Sector Development Project reports low effectiveness, impact and sustainability.¹¹⁴ The evaluation points to significant weaknesses in project design, combined with insufficient monitoring by the NAO and the EC Delegation, and the absence of a mid-term review which could have allowed reorientation of the programme. In spite of the project's weaknesses, it was extended 3 times and additional Stabex funding was injected into it.¹¹⁵

¹¹² The Farming Systems Support Programme, € 15.7 million.

¹¹³ Draft Court of Auditors Report, Annex 5, page 19.

¹¹⁴ Evaluation of the Silk Sector Development Project: Final Report, Agristudio / EC, January 2000.

¹¹⁵ Initial funding was € 2.2 million. An additional € 685,000 was added in two subsequent addendums.

Role of the NAO office and EC Delegation

NAO office

A number of evaluations have found the capacity of the NAO office to be low, while during our visit a number of donors also noted the weakness of the Aid Liaison Department. Both the 1996 evaluation of EC support for the NAO and the draft Court of Auditors report conclude that the NAO office is unable to perform its roles effectively.¹¹⁶ In particular there is concern over the effectiveness of project monitoring and financial controls by the NAO. The NAO set-up in Uganda is similar to that used in Tanzania in the past, where the result was weak financial controls and accountability problems. The Delegation also noted in interviews that the weakness of the NAO office results in the overburdening of EC advisers (see section below).

The NAO office consists of a unit (the 'EDF Unit') within the Aid Liaison Department of the MFPED, and the Commissioner for Aid Liaison is the Deputy NAO. In principle the Aid Liaison Department has wider aid coordination functions, but in practice most of its efforts and staff resources are given to EC projects. According to our interviews with other donors, there is very little interaction between other donors and this department.

EC relations with the NAO office have not been smooth in the past. According to the EDF Unit, initially most decisions were taken by either the TAs or the EC Delegation, in consultation with Headquarters,¹¹⁷ with little consultation with the Government.

Limited capacity in the EDF Unit

The draft Court of Auditors report 1999 notes that the NAO office has performed its functions in an *ad hoc* manner, failed to address problems of accounting and slow moving projects, and neglected to follow up audit recommendations, changes to FMOs, and other issues.¹¹⁸

The NAO office carries out roles in relation to EC aid which are generally carried out by other structures in the Ugandan Government, e.g. it plays a role in project identification which would normally be carried out by the Budget Policy and Evaluation Department in consultation with line ministries. The planning, implementation, and monitoring functions of the NAO office are labour-intensive and require specialised sector-specific technical skills, and should be carried out in line ministries or specialised departments within the MFPED.

The 5 local staff members of the EDF Unit (supported by TAs – see below) are neither sufficient in number nor adequately trained to carry out such work. Note that other donors have relatively efficient project implementation without working through a dedicated unit in the Aid Liaison Department.

Weak links between EDF Unit and the rest of Government

Interviews with a number of MFPED officials indicate that information flows with other departments in the MFPED are particularly weak. Apart from the involvement of the Development Committee at the time of signing the NIP, the relevant departments of MFPED have little knowledge of EC project implementation.¹¹⁹

¹¹⁶ Support to the External Aid Coordination Department, National Authorising Officer's Office, Uganda: Evaluation of the EDF-Funded Programme, LTS / EC, October-November 1996, p.29. See also draft Court of Auditors report, paragraph 21 and Annex 1.

¹¹⁷ For a time, the EC TAs to support the NAO were actually based in the Delegation.

¹¹⁸ European Court of Auditors, Mission Report Uganda (18.9.1999-1.10.1999), draft, Annex 1, p.7.

¹¹⁹ Until 1996, sectoral TAs were located in the NAO office, which also complicated information flows between the NAO and line ministries (see NAO evaluation, *op. cit.*) The sectoral TAs were subsequently moved to the line ministries.

As a consequence, EC aid lacks transparency within the Government's budgeting and monitoring system. This weakens the integration of EC projects and programmes with the MTEF and with the process of project approval followed by the Development Committee. In addition, cost overruns and other problems with financial implications for government can potentially find *ex post* solutions outside the standard procedures of the MFPED by way of ministerially authorised reallocations of resources from elsewhere in the budget. Weak information flows thereby pose a potential threat to budget discipline.

As Uganda moves towards a consolidation of local and donor funding in the budget and the implementation of sector approaches, the rationale for, and structure of, the project-focused EDF Unit may become even less clear. The tasks of project implementation and monitoring will be focused on local governments in conjunction with line ministries, while a key function of central government will be donor coordination. In this context, it will be even more important that the Aid Liaison Department should be strengthened in its general aid coordination functions. A continued focus on EC projects will not facilitate this.

EC support has not strengthened the NAO office effectively

The EC has provided on-going support to the NAO office since 1991, through both NIP and Stabex funds. An evaluation in 1996 argued that the limited improvements in efficiency which were delivered were not justified by the high cost of the TA-based programme.¹²⁰ The 1999 draft Court of Auditors report states that the situation had not improved substantially since the time of the evaluation.¹²¹ Recent efforts have been made to increase and systematise this support through ASCIM (see Box), but the support continues to be targeted more at facilitating the implementation of EC projects, rather than building the general aid coordination capacity of the Government.

The Aid Liaison Department's limited attention to its wider donor coordination function and its weak information flows (noted above) are exacerbated by the EC provision of substantial allowances ('facilitation costs') to members of the Department. This would appear to contravene agreements reached by donors on the payment of such allowances or "top-ups".¹²²

EC support involves the provision of TAs to the NAO office.¹²³ At the peak, from 1994 to 1996, there were five TAs. This number was reduced following the transfer of sectoral TAs to line ministries, which followed a highly critical evaluation. There are currently two TAs in place.

¹²⁰ Support to the External Aid Coordination Department, National Authorising Officer's Office, Uganda: Evaluation of the EDF-Funded Programme, LTS / EC, October-November 1996.

¹²¹ Op. cit., Annex 1, p.7.

¹²² These allowances are called 'facilitation costs' in the 1999 draft Court of Auditors report. The NAO office describes these as monitoring and evaluation costs for the NAO to efficiently and effectively execute EDF financed projects and programmes.

¹²³ The consultants have recently changed.

ASCIM: some benefits, but complex and non-transparent

ASCIM (Adaptation and Strengthening of Current Implementation Mechanisms) is a relatively recent framework for a range of activities intended to speed up implementation of Stabex and NIP funds, and it incorporates EC support to the NAO office. It brings together both existing and new support mechanisms, with additional Stabex funding.

Some of the steps called for involve the transfer of some administrative responsibilities from the EDF Unit to consultants. While the outsourcing of certain EC-specific procedures can be a means of both improving financial accountability and reducing red tape for the Government (as carried out in some other countries), initially it raised some opposition from EDF Unit staff who perceived the outsourcing as a loss of responsibilities.

The draft Court of Auditors report has criticised ASCIM both for its complexity and for its costs. The complexity is such that a TA has been hired for the purpose of managing the ASCIM exercise itself.¹²⁴

EC Delegation

According to the Government and other donors, the capacity of the EC Delegation was very low in the past. However, it is generally recognised that coinciding with the appointment of the current Head of Delegation two years ago, the capacity of the Delegation has improved. There are currently 8 professional staff, including the recent addition of a Detached National Expert from DFID in the education sector. However, the workload is such that the Delegation staff is still focused on administrative procedures, and has little time for policy dialogue, analysis, donor coordination, or project monitoring.

While the EC in Uganda has faced many of the same constraints it faces everywhere (complex time-consuming procedures, insufficient staff resources, and low administrative capacity of the NAO office), in Uganda the pressure on staff has been particularly heavy:

- There is a particularly large volume of funds for the staff available. From the 7th EDF, staff have had to manage not only a € 163 million NIP programme, but also €174 of Stabex funds and €52 from the Structural Adjustment Facility. Staff numbers have not been boosted to cope with the substantial non-NIP funds.¹²⁵
- The EC's project portfolio has been fragmented (see above), with a large number of sectors and a large number of small project commitments (particularly through Stabex funds).

The focus on administrative procedures is also reinforced by staff responsibilities that have been allocated mostly by project rather than by theme. There has been little team-work as yet, and each staff-member has been allocated a dispersed portfolio of projects. This has contributed to the centralisation of decision-making (and even of information), which may limit the effectiveness of advisers. As a consequence, there has been little cross-sectoral work,¹²⁶ limited policy discussion within the Delegation, and advisers have had limited opportunity to develop expertise in particular areas. It is expected that more team work will be encouraged in the context of sector approaches and the PRSC.

¹²⁴ Draft Court of Auditors report, p.38.

¹²⁵ The situation in Uganda can be contrasted with that in Mozambique, where the implementation of funds from the Food Security budget-line and from Articles 254 and 255 of the Lomé Convention was facilitated by the special creation of well-staffed EC technical units (see Evaluation of EC Country Strategy: Mozambique, December 2000).

¹²⁶ There are no mechanisms for mainstreaming EC priority objectives (poverty reduction, good governance, gender equality, environmental protection) across the project portfolio. See chapter 2 (Impact), and the section below on Project Preparation.

Use of TA

Because of the administrative burden on Delegation advisers, and the absence of advisers in certain sectors (e.g. the health sector until recently), in a number of cases EC-funded TAs have been involved in donor coordination for the EC, which should be the responsibility of Delegation advisers. Most recently this has been the case in private sector development, where the SUFFICE TA has participated in donor meetings on the EC's behalf. This has created a number of coordination problems. Consultants should not be made responsible for policy or coordination with other donors. Their appropriate function is capacity-building in line-ministries.

Poor controls, and weakness in project cycle

As a result of the fragmentation of the EC's project portfolio, the lack of transparency, and the capacity constraints of both the NAO office and the EC Delegation, the managerial and financial controls on EC projects have been particularly weak (section A.), and there have been weaknesses at each stage of the project cycle (section B.)

Weak managerial and financial controls

A number of EC projects have been negatively affected by weak managerial and financial controls. In several projects this has been very disruptive, with some projects suspended for some period of time because of financial irregularities (the Micro-Projects Programme for one year from 1997 to 1998, and support to the Uganda Wildlife Authority for 6 months in 1997).

EC projects have been affected by weak financial controls of the Government as a whole, by the weak controls of the NAO office in particular, and by weak monitoring from the EC Delegation. The EDF Unit in principle has a role in project monitoring, but in practice its monitoring activities have been *ad hoc*, not systematic.¹²⁷ Standard Government monitoring procedures, e.g. through expenditure departments in the MFPED, have been particularly weak in the case of EC projects because of the restricted information flows between the EDF Unit and other departments (discussed above).

Audits have not been carried out systematically. According to the Court of Auditors, while many projects have been audited, such audits have been at the initiative of individual advisers, rather than being systematic, and so many projects have not been audited regularly.¹²⁸ For example, no audits were carried out of the EC forestry programme between 1992 and 1998 (regular audits have now been introduced). Quality of audits is also an important concern.

Controls have been particularly weak for Stabex interventions and the use of SASP funds (see Box). The use of Stabex 'bridging' finance to extend NIP funding may have reduced controls on some projects – there are also fewer formal controls on the use of Stabex funds (e.g. no submission to the EDF Committee) and it is significant that a number of programmes that had run into difficulties subsequently received 'bridging' finance from Stabex to continue in operation (discussed above).

¹²⁷ This approach has also not proved successful in other countries. According to the draft Court of Auditors report, 'Most of the responsibilities of the NAO were performed in an ad hoc manner, be it planning for new actions, monitoring of their execution or financial control/follow-up.' Annex 1, p.7.

¹²⁸ Draft Court of Auditors report, 1999 p.11.

Difficulties in management of SASP counterpart funds

The management of SASP counterpart funds has been weak in the past. The audit of counterpart funds has not been systematic, and problems were noted in the audit of SASP 1 on interest received, which required a change of holding bank.

Transparency has been reduced by not allocating all counterpart funds to the consolidated fund of the budget. There have also been important delays in transferring SASP 2 counterpart funds to the Government budget. More recently (SASP3), concerns have arisen over the speed of transfer of counterpart funds, and the exchange rate for conversions.

10% of SASP 1 counterpart funds were reserved to support EC project. These funds (US\$ 4.6 billion¹²⁹) have been used not only to support NIP projects (including bridging loans), but also for a multiplicity of other interventions (e.g. seminars, additional support to the NAO, etc.) These funds have suffered some of the same weaknesses noted above with regard to the project-based use of Stabex funds in Uganda. Such funds have been particularly fragmented and non-transparent, and have been subject to few controls.

A number of these difficulties would be alleviated if a common approach to budget support were agreed with other donors, as is currently under discussion.

Other examples of programmes that have faced difficulties as a result of weak controls include Kampala City Roads and the 7th EDF Micro-Projects Programme:

- Kampala City Roads was characterised by implementation delays and contract disputes. A Court of Auditors report in 1995 concluded that the tendering procedure had been flawed, and the EC Chief Authorising Officer took 6 and a half months to approve the NAO's tender decision, delaying project implementation. Project execution has been marred by a prolonged dispute with the contractor over variation in prices, for which settlement is still pending.¹³⁰
- The endorsement of all new activities in the 7th EDF Micro-Projects Programme (MPP) was suspended for one year from 1997 to 1998, following an audit which reported 'strong indications of mismanagement' and financial irregularities. The draft Court of Auditors report also found poor management and weak financial controls.¹³¹ The Court of Auditors placed some of the blame on the Delegation, for insufficient monitoring in the past, with repeated changes in the advisor responsible for the MPP.¹³² Part of the explanation, though, may have been in the NAO's strong role in decision-making and monitoring of the MPP. There may be some improvement in monitoring of the 8th EDF MPP as, following the initial non-approval of the financing proposal at the EDF Committee¹³³, the Project Management Unit was put under the supervision of the Ministry of Local Government¹³⁴.

Weaknesses in the project cycle

Poor project preparation

While the project preparation process has in many recent cases been thorough, with quality feasibility studies (e.g. the recent feasibility study for the Kampala By-Pass), there are a

¹²⁹ € 3.1 million.

¹³⁰ Mission Report No. U 2 on Tender 3517, Kampala City Roads- Phase II, Tender Procedures for work contracts, Mission to Uganda, October 1995.

¹³¹ European Court of Auditors, Mission Report: Uganda, 18.9.1999 – 1.10.1999, draft, Annex 4.

¹³² Op. cit., pp.14 and 17.

¹³³ 345th Meeting of EDF Committee, 17 November 1999.

¹³⁴ See Note to the Members of the EDF Committee, 6th of December 1999.

Examples of poor project preparation

SASP

The EC has insufficient resources for designing a large operation with its own conditionalities. There are insufficient EC staff in the Delegation for monitoring relevant developments (e.g. civil service reform), and there is an excessive reliance on consultants. For the recent PABS 4 proposal, there was only a visit of one consultant for 4 days.

The design of EC SASPs has created a burden for both the EC and the Government, with the need to monitor and assess bilaterally a multiplicity of EC-specific conditionalities. SASP procedures have been very complex and time-consuming, although the import justification was simplified. The burden on both the Government and the EC would be significantly reduced if the EC were to follow a common donor approach.

Roads

Project preparation of roads programmes has been very protracted, leading to significant slippage in the programme. In addition, the quality of the work submitted by consultants involved in project preparation has often not been strong, partly because of weak quality control by the MoWHC (quality control has improved under RAFU, partly as a result of the provision of EDF-funded TA).

Weaknesses in project preparation have in turn resulted in slow implementation and weak projects. The Kampala bypass is an example (see box page 19). The delays in implementation of Kampala City Roads were in part due to a poor design study. Major discrepancies between the design study drawings and the reality of Kampala's roads necessitated an extensive review of the original study, which in turn meant delays and additional costs. The project design also failed adequately to consider the need to build capacity in the Kampala City Council and the need to ensure effective road maintenance, limiting the project's subsequent sustainability.

Micro-finance

Project preparation of the micro-finance initiatives appears to have been weak. The 1997 evaluation argued that the activities were poorly designed, old-style interventions which harm the credit environment. The design of the 8th EDF Micro-Projects Programme appears stronger.

Smallholder tea

The potential impact of the Smallholder Tea Development Programme (7th EDF) has been limited by a number of weaknesses in the project design. The Mid-Term Review and the draft Court of Auditors Report have noted that the impact has been highly dependent on changes in world tea prices, the unpredictability of which could have been foreseen at the time the project was designed. In addition, the lack of a study of labour market constraints in the sector during project design is now seen to have been a weakness, following the impact on the project of the return of Rwandan refugees. It is also possible that the design of the privatisation process may have been flawed. Unless amendments are made to the process, there is a risk that it will end in a buy-out of smallholders' shares by tea estate owners, undermining the project rationale of empowering smallholders. Efforts are being made in a final Consolidation Phase of the programme to ensure that project objectives are met by the time the project is closed.

number of cases where project impact has been significantly reduced by weaknesses in project design (see box). Such cases often reflect systemic weaknesses in the preparation process. Systemic factors have included: the Government's budgeting and planning process is generally of relatively high quality, but EC projects are not well integrated into this process (see previous discussion on the role of the EDF Unit). As a consequence, in some cases, EC projects can be approved which have little support from line ministries. In the case of the recent SUFFICE phase 2 project design, for example, in interviews little evidence was found of coordination with the MFPED or the Bank of Uganda (or other key donors in the sector, e.g. GTZ).

- As noted in chapter 2, there has been limited incorporation of poverty, governance, gender and environment issues. There are no mechanisms in the Delegation to ensure that gender equality and environmental protection are systematically mainstreamed

into project design (though environmental impact assessments have been carried out for road projects).

- Donor coordination during project preparation has been limited. The EC has been slow to recognise the value of carrying out project studies jointly with other donors. For example, recent study missions on support to the private sector should have been better coordinated with similar studies carried out for other donors.
- A number of projects (and phases of on-going projects) have been funded through Stabex, which may, while allowing the EC greater flexibility, affect the quality of project preparation.

Delays

Delays in both programming and implementation have limited the impact of projects, and have also reduced their relevance in some cases. A notable case is the SWURMP (see box).

The programming of 8th EDF funds has been slow (see section 1B). There is a perception in Government that Stabex funds have suffered long delays, but there is not an understanding that this is in part because of the project-approach. Stabex is in principle a fast-disbursing instrument, but in Uganda it has been used in a comparable way to the NIP, with project commitments made over several years. A proportion of SASP counterpart funds have been used in the same way. Out of € 174 million of 7th EDF Stabex funds, deriving very largely from allocations made between 1990 and 1993, € 54 million had still not been committed by May 2000.¹³⁵ An even larger proportion had yet not been disbursed.

Implementation of NIP projects has also been delayed. In particular, delays on EC infrastructure projects have been viewed very seriously by the Ugandan Government, resulting in an exchange of correspondence between the Commissioner and the President of Uganda.

Effects of delays. Long delays between project preparation and implementation have in some cases resulted in situations where consultants' studies have become inappropriate by the time of implementation because of changes in the policy or institutional environment. This problem is exacerbated by the reluctance of the EC and Member States to allow much flexibility in project design. Preparation for the Human Resources for Health programme began before the development of the sector approach, but implementation will begin when the sector approach is under way, and the relevance of the programme will then be less clear. In the case of structural adjustment support (SASP 2), delays (and the use of the EC's own consultant studies, rather than following a joint donor approach) meant that, although considerable time had been spent in developing EC-specific conditionalities and requirements – at great cost to the Government in terms of time – by the time of disbursement, the conditionalities could not be applied to the budget for which they were initially intended.

¹³⁵

Source: Own calculations from Project Funding Analysis Report (Detailed) by 10/05/00.

SWURMP: delays undermine rationale for project

In 1994, the MoWTC then drew up the Four Year Main Roads Maintenance Programme (MRMP), a strategy to ensure proper programming and funding of road maintenance, and enlisted donor support (proposed to be on a declining scale) to finance the programme. The estimate cost of the four year programme was put at US\$ 150 million of which the GoU committed itself to funding US\$ 74.5 million on an increasing annual basis¹³⁶. Expenditures on the programme were estimated to offer an overall economic rate of return of 135% reflecting the potentially high returns to timely maintenance.

In order to implement the programme, the country was divided up on a regional basis with a five donors¹³⁷ each taking on a region. It is within the context of this programme that the 7th EDF funded South Western Uganda Road Maintenance Programme (SWURMP) was developed and implemented. The prioritised workload for SWURMP was projected to be implemented over the period 1994/95 to 1996/97, consistent with the timeframe for the MRMP.¹³⁸ The FP envisaged the project as being "the first phase of a longer-term intervention, road maintenance activities having no prospect of being fully locally financed by the end of this programme".

Whilst the original design of the SWURMP is clear evidence of the good policy dialogue between the GoU and the EC (and other donors), and of the consistency of the resulting assistance strategy with government priorities, in practical terms, the assistance has fallen short of expectations, largely because of significant delays in commencing implementation. The two year delay in contracting TA to implement the capacity building aspects of the project and supervise implementation of physical works had serious implications for the design of the project itself and undermined the overall MRMP strategy. During this time, road condition on the major trunk road in the region (the Northern Corridor Route) deteriorated rapidly, with the absence of a systematic and well funded maintenance programme being an important cause. As a result, when implementation began, the EDF assistance had to be re-focused on emergency repairs to the most important paved roads in the region through large contracts let to international contractors. Thus, what had been designed as a genuine co-operative effort between the donor and government to share the burden of road maintenance (as illustrated by the work plan contained in the FP) turned into a very different intervention, with the GoU shouldering the burden of regular road maintenance and, not unexpectedly, being unable to compensate for the reduced EDF contribution.

The delays associated with contracting TA for this project resulted in considerable friction between the GoU and the EC, with the GoU placing the blame squarely on EC procurement procedures. However, it is difficult to apportion blame.

| Activity | Date |
|---|----------------------|
| <i>MoWTC sends letter to NAO with draft ToR and name of single contractor</i> | <i>Sept. 1994</i> |
| <i>NAO sends draft ToR to HoD</i> | <i>April 1995</i> |
| <i>HoD requests preparation of tender dossier from NAO</i> | <i>August 1995</i> |
| <i>NAO submits draft tender dossier</i> | <i>January 1996</i> |
| <i>First draft of tender dossier sent to Brussels for comment</i> | <i>February 1996</i> |
| <i>Delegation approve tender dossier and ask for approval from Brussels</i> | <i>March 1996</i> |
| <i>Tender submission</i> | <i>October 1996</i> |
| <i>Contract signed with consultants</i> | <i>April 1997</i> |

Of particular note is the long period of time (5 months) taken to prepare the draft tender dossier after the request from the Delegation. All together, two years elapsed between the beginning of the preparation of the tender documentation and the submission of tenders. The 6 months between tender submission and contract signature seems relatively short in comparison.

¹³⁶ 94/95 US\$ 13.5m; 95/96 US\$ 17 m; 96/97 US\$ 20 m; 97/98 US\$ 24 m

¹³⁷ DFID, KfW, World Bank, AfDB, EU,

¹³⁸ Financing Proposal 7th EDF: South Western Uganda Road Maintenance Programme, July 1994.

Weak learning systems

While a number of project evaluations have been carried out, there has generally not been systematic use of tools for learning, either at the level of the overall programme (annual reports, country reviews, and general analytic work) or at project level (monitoring, evaluations, audits).

In part, because of the heavy administrative burden on staff and the complexity of the EC programme, annual reports have not been published recently (even though required by Article 318 of the Lomé Convention) and are prepared on a biannual basis. The most recent Annual Report was for the years 1995-96. In addition, there was no full Country Review in 1999, though this should be an annual process. While the Mid Term Review was prepared, and 'Conclusions' for a country review were issued at the same time, the most recent full-length Country Review was in November 1998. More generally, there has been insufficient analytical work carried out within the Delegation. This is partly linked to the division of responsibilities within the Delegation, with staff responsibilities closely linked to projects, and with limited opportunities for team-work or for cross-cutting issues.

A number of evaluations have been carried out (see table), some as case-studies of global evaluations. But there are a number of significant projects where further evaluations would have been appropriate. In particular, there have been no recent mid-term or final evaluations in the roads sector, and evaluations of SASP and Stabex funds have not been carried out since 1995, even though most of these funds have been disbursed since that time, limiting the value of those evaluations. Possibly there should also be an evaluation of the use of TAs in Uganda, as recommended in the draft Court of Auditors report (p.39). Evaluations have varied in their quality – the forestry sector provides examples of both strong and weak evaluations (see Box).

As noted above (in the section on Managerial and Financial Controls), project-monitoring and audits have also not been carried out systematically.

Forestry evaluations

The environment sector provides an illustration of the importance of monitoring and evaluations.

The Mid-Term Evaluation of the forestry sector programme,¹³⁹ which was carried out in 1992, at the same time as the Kibale incident, was particularly weak. As noted in the EC environment sector review *The Road from Rio*, the Mid-Term Evaluation assessed the programme only with reference to the original terms of reference, and without regard to the reality of what was happening on the ground.¹⁴⁰ In addition, external project monitoring was weak and failed to alert the EC to the potential problems.¹⁴¹

As a consequence, significant opportunities were missed in which there could have been a radical reassessment of the programme and in which actions could possibly have been identified to avoid the damage done in the evictions.¹⁴²

The final evaluation of the programme appears to have been much more thorough. However, given the EC's difficulties in the sector in the past, it would have been appropriate if there had also been an external evaluation of the Stabex-financed forestry bridging programme (1996 to 2000) before the submission of a financing proposal for 8th EDF funding.

¹³⁹ Uganda Forestry Rehabilitation Programme: Final Report, Mid-Term Evaluation Mission, FGU / EC, December 1992.

¹⁴⁰ *The Road from Rio: EC Aid to Uganda Since the Earth Summit*, Report of the EC-Uganda Roundtable on Sustainable Development, Kampala, 30-31 October 1997, IIED / EC, April 1998, p.33.

¹⁴¹ Evaluation of the EDF-Funded Natural Forest Management and Conservation Project: A Component of the World Bank Forestry Rehabilitation Project, Uganda, LTS / EC, July 1996, p.7.

¹⁴² *ibid.*

| Evaluations available (mid-term and final) – 7th EDF | | |
|--|-----------------|----------------|
| Project / programme | Mid-term | Final |
| SASP 1 | ✓ ¹ | |
| SASP 2 | ✗ | |
| SASP 3 | ✗ | |
| Stabex | 2 | |
| Kampala City Roads | ✗ | ✗ |
| S-W Uganda Road Maintenance | ✗ | – |
| Human Resources Development | ✓ | ✗ |
| Blood Transfusion Services | ✗ | ✗ |
| Uganda Health Programme | ✗ | – |
| Micro-Projects Programme | ✓ ³ | ✗ ³ |
| Smallholder Tea Development | ✓ | – |
| Forestry bridging finance | ✗ | ✗ |
| Support to tourism and wildlife | ✗ | ✓ |
| Silk Sector Development | ✗ | ✓ |
| Support to NAO Office | ✓ ⁴ | ✗ ⁴ |
| Constituent Assembly Elections | ✗ | ✗ |
| Parliament. & Presid. Elections | ✗ | ✗ |
| Assistance to UIA | ✗ | ✗ |

1. The most complete SASP evaluation was carried out in 1995, but short evaluation notes were carried out for SASP1 and SASP2.
2. An evaluation of Stabex operations in Uganda was carried out in 1995, when only a relatively small proportion of 7th EDF funds had been disbursed.
3. Micro-projects in Uganda have been examined as part of two global evaluations: one of Multi-annual Micro-projects Programmes (in 1997), the other of Rural Savings and Credit Programmes (also in 1997).
4. An evaluation was carried out in 1996, assessing the on-going support to the NAO office.

D. Summary analysis of EC performance by sector

The following table summarises the discussion in Chapters 2 and 3 and aims to present schematically (but tentatively) the EC's performance (or likely performance) in its sectors of intervention in Uganda. Overall the assessment is mixed to poor, with health and (recently) education standing out as sectors with relatively good records.

| Sector and instruments / criterion ¹ ² | Relevance ³ | Prior successful experience in the country ⁴ | Focus within sector ⁵ | EC relations with institutions – Govt & civil society | Likelihood of donor complementarity | Likely impact ⁶ |
|--|------------------------|---|----------------------------------|---|-------------------------------------|----------------------------|
| Agriculture | + | - | - | - | - | - |
| Governance, civil society | + | - | - | +/- | +/- | +/- |
| Structural adjustment | + | - | - | - | - | +/- |
| Health, population | + | + | + | + | - | + |
| Transport & communications | + | - | + | - | + | - |
| Environment | + | - | - | +/- | +/- | - |
| Education | + | - | - | +/- | + | +/- ⁷ |
| Private sector | +/- | - | - | - | - | - |

1. Sectoral classification follows the one used in *The European Community External Cooperation Programmes: Policies, Management and Distribution*, EC/ODI, 1999.

2. Ratings range from + (high) to – (low).

3. Relevance to country analysis (see ch.1), on the basis of Maastricht priority objectives (good governance, poverty reduction, gender equality and environmental protection).

4. History of prior EC involvement and success of prior EC projects in the sector (in Uganda).

5. Focus of EC interventions within the sector (including focus of components within single programmes).

6. Preliminary assessment based on quality of project preparation and mid-term or final evaluations when available.

7. This assessment reflects both the poor performance of HRDP and the successful support to the ESIP.

4

Recommendations

These recommendations are intended to assist in the preparation of the EC's Country Support Strategy for Uganda. They take into account the Cotonou Agreement and its emphasis on good governance, on a new partnership that embodies the participation of civil society, and on poverty reduction as the central objective of the new partnership. The recommendations also take into account the Commission's guidelines on the 9th EDF programming process. It should also be noted that some of these recommendations are already being implemented, while others require action on the part of other parties as well as that of the Delegation itself.

The next EC strategy preparation process should attach a much higher priority to getting its analysis right, and base EC's proposed interventions on a strategy, rather than on other – notably political- considerations (see discussion on section 3.c).

As a major donor, the EC has potentially considerable influence, and it has also some demonstrated capacity in coordinating “political” issues among donors. The Delegation should take the lead in mobilising the donor community to influence the GoU on key political/governance issues (military interventions, corruption, multi-party democracy).

To improve its impact on development in Uganda, the EC must adjust more rapidly to the general move among key donors to sector-wide approaches. The need for this is strengthened by the EC's weaknesses in Uganda to manage a large number of projects. The approach taken by the EC in the education sector could serve as a model for other sectors.

Ensuring relevance of the strategy

1. **Objectives: good governance and the reduction of poverty.** Country analysis suggests that the EC strategy should focus on two principal objectives:¹⁴³
 - *Firstly:* the reduction of poverty;
 - *Secondly:* (as a necessary precondition to the first) good governance, including improvements in public administration and reductions in corruption.
2. *Strategy should show clearly – based on analysis - how proposed interventions are linked to objectives (poverty and governance).* In previous strategy and country review work the analysis has not fed through into actual EC interventions. This will also help to guard against a strategy based in large part on perceived political and purely administrative constraints, as in the past.
3. *Strategy should be capable of readjustment in changed circumstances.* At the moment, for political and administrative reasons, it is very difficult to cancel a project once proposed. Projects should be rigorously evaluated against the objectives set out in the strategy at each decision point. For example, there is a strong case for reconsidering the continuation of the Kampala bypass project.

¹⁴³ These objectives draw together the objectives of ACP-EC cooperation identified in the Cotonou Agreement and the key characteristics of Uganda identified in chapter 1.

4. *Strategy should include a 'base case' and a 'high' case scenario in the financial allocation.* These scenarios should be linked to clear benchmarks to assess Government progress on the two principal objectives and performance of EC interventions in contributing to these objectives.
5. *EC Strategy should include systematic and transparent consultations with different elements of civil society (integrated with consultations on the PEAP).* This should be part of a wider effort to support political dialogue and conflict-resolution. Civil society and the private sector, should not only contribute to the preparation of the strategy (particularly on governance and rule of law issues) but could also become a part of a decentralised system to monitor the implementation of the aid programme (see work of Uganda Debt Network).

Increasing the focus of EC aid

6. *Channel most EC support through sector investment plans/sector-wide approaches,* particularly given the weakness of many EC projects in Uganda. EC interventions should –as is currently the case in the education sector - increasingly take the form of financial support channelled directly through the government budget, combined with technical support and policy advice aimed at building institutional capacity within line Ministries responsible for implementing sector plans.
7. *Develop a more strategic approach to sector approaches.* The EC should also develop – in conjunction with other donors – a more strategic view of sector approaches, covering issues such as the role of conditionalities, earmarking and auditing (see Box, section 3A).
8. *Avoid project support.* EC's record in Uganda shows that given current resources and procedures, current Delegation capacity, NAO office support, and other constraints, the EC has many difficulties in supporting projects successfully. New projects should only be considered if there is a clear and compelling case that they will contribute to primary objectives, and capacity exists to manage them properly
9. *Focus EC aid programme (and instruments) in a small number of narrowly defined areas.* Staff resources are needed to monitor public administration reforms, to integrate consideration of cross-cutting issues, and for consultation with civil society and other donors.
10. **Suggested approach to different sectors:**
 - **Budget support** should be based on conditionalities and timetables jointly agreed with the BWI and other key donors. The EC should continue to seek the establishment of a joint technical working group with other donors to establish and monitor such conditionalities. Within this, EC should press for conditionalities to focus on key cross-cutting issues (public administration, pay reform, corruption: see below).
 - **Roads.** Given its impact on poverty and the significant involvement of the EC in the past, there is a case for continued EC support to the roads sector. However, in *advance* of considering financial support for any new projects, the EC (together with other key donors) should focus on institutional development and capacity-building. In particular, the EC should press for:
 - coordinated donor support to help build policy-making capacity in MoWHC
 - integration of poverty focus (as well as gender and HIV/AIDS) within RSDP
 - sustainable institutional arrangements with a proper separation of policy-making and implementation functions.
 - The Kampala bypass should be re-evaluated in the light of the EC's priority objectives – there appears to be strong case for cancelling it.

- **Health.** The EC should reconsider its proposal to provide financial support for the Human Resources for Health project. The institutional environment does not appear to be sufficiently settled, and the EC does not appear to have a comparative advantage in human resources. Instead, the EC should join other donors in providing technical and institutional support to the development of the HSSP (including the human resources element). The EC should then provide financial support in the context of a sector approach – as in education – when there is sufficient certainty about the overall financing needs of the sector.
 - **Education.** EC should continue its successful support to the ESIP and its focus on the auditing of education sector funds.
 - **Agriculture and forestry.** The EC should reconsider its involvement in the agriculture sector, given the poor record of past project support. When the institutional framework is clearer, the EC could consider providing support jointly with other donors
 - **Private sector.** Given the problems experienced with private sector support in the past, the current coordination problems discussed above, and the lack of comparative advantage in this sector, there is a strong case for reconsidering independent support in this area. Co-financing of other donors' interventions is suggested. (in the context of the Government's Medium-Term Competitive Strategy)
11. *The EC (together with other donors) should make budget support conditional on progress on a number of key cross-cutting issues:*
- Pay reform.* The government should make pay reform a priority and the MFPED should ensure that resources are available to finance it.
- Corruption.* The government should give a strong political lead in the fight against corruption. This is likely to require several high-profile enforcement actions, not just the punishment of low-level offenders.
- Monitoring and accountability.* The EC should make support in each sector conditional on improved arrangements for the monitoring and accountability of public expenditure (initially this could require support of external auditors).

Governance and civil society

12. *Support governance by designing and implementing a strategy to strengthen civil society.* The EC should improve its contacts with and analysis of civil society, with a view to integrating civil society both into the formulation and implementation of the overall country strategy (see above).
13. *Where appropriate, the EC should provide financial support to relevant civil society organisations.* To reduce the administrative burden (and to avoid patronage problems) one possibility would be to channel support through **intermediary funding organisations**, which would operate independently but use criteria agreed and monitored by the EC, other donors and civil society. Selection of funding intermediaries would need to be transparent.
14. *The EC should support (jointly with other donors) efforts to improve the monitoring and accountability of public expenditure.* This would include support to public expenditure monitoring and tracking studies and service delivery studies, such as those currently being undertaken by the GoU and the World Bank in some sectors (e.g. health).
15. *The EC should support an expansion of the role of civil society in monitoring public expenditure.* The EC should support emerging efforts by NGOs to monitor expenditure

through the PAF and to expose corruption and maladministration. It should press for such independent monitoring efforts to be incorporated into individual sector investment plans.

16. *The EC should take the lead in pressing for political reform and democratisation.* The EC, on behalf of EU Member States, should make it clear that while it cannot and does not wish to impose a particular form of democracy on Uganda, it is the clear view of EU Member States that the current “movement” system is likely to be unsustainable in the medium term and to be prejudicial to Uganda’s development.

Improving aid coordination practices

17. *The EC should support a joint approach to budget support (see above), sector-wide approaches, and should discourage the use of project support wherever practicable.* Donors should reduce burdens on government by approaching the government jointly wherever possible.
18. *Jointly with other donors, the EC should be transparent on salary supplements paid from donors to Government officials. In conjunction with the adoption of pay reforms these supplements should be phased-out.* Strict implementation of the existing Codes of Conduct among donors would be a first step.
19. *The EC should promote a culture of openness among donors.* It would be desirable, for example, that all relevant sector information should be published in a web-page up-dated by the lead donor in each sector.
20. *EC should only provide institutional support to Government departments as part of joint pools for technical assistance.* TA should not be linked to individual donors but should be part of a comprehensive institutional support approach supported jointly by donors.

Using EC resources and procedures more efficiently

Some of the recommendations in this report are already in hand, while others could only be implemented in the context of a successful internal restructuring within the Commission.

21. *Change incentives of Commission staff away from disbursements to quality and sustainability of interventions.* Commission staff should be appraised as far as possible on the basis of their contribution to the success of the overall country strategy, and on the quality and sustainability of individual EC interventions.
22. *Enhanced working practices within the Delegation.*
- instead of each advisor having a “portfolio” of individual projects, there should be much greater use of teamwork and cross-cutting working practices. This would also help to mainstream poverty, governance, gender equality and environmental issues (see below).
 - the Delegation appears over-centralised. Individual advisors could be given greater autonomy and decision-making powers.
23. *Deconcentration and simplification of procedures in practice.* While important changes are being introduced in this area, the Delegation spends far too much of its limited resources on either complying with or trying to go around procedures. Headquarters should not only give more discretion to the Delegation, but positively *require* the Delegation to take decisions and accept responsibility for them,¹⁴⁴ while holding the Delegation to account for the results achieved by the following means:

¹⁴⁴

At the moment, it is easy for the Delegation to point at Headquarters for delays and bureaucratic procedures, while staff at Headquarters point to the fact that there is already a

- *Ex post auditing.* Rigorous and systematic ex post audits on all projects (by accredited international audit companies, when necessary) should replace existing inefficient ex ante controls on projects.
 - *Performance targets.* Quantified performance targets should be set for service standards to EC aid recipients (e.g. a limit of 10 days for approval of tender documents).
24. *EC should reinforce specialist skills in Delegations and provide Delegations with rapid funds to support their own technical capacity (including non-project support).* Reinforced skills – through additional staff and/or training for existing staff - in governance, poverty, gender and the environment are particularly important. It should be noted that proper consideration – going beyond simply “ticking boxes” - of cross-cutting issues necessitates additional time and resources, as well as “follow-through” of training (e.g. with changes to job descriptions and staff appraisal criteria, to require closer attention to such issues).
25. *EC should appoint a programme administrator in the Delegation to focus on financial management,* with responsibility for monitoring (including performance¹⁴⁵) and timeliness and quality of financial and/or operational audits, mid-term reviews and final evaluations.
26. *EC should strengthen capacity by promoting the pooling of technical staff with Member States and other donors.* This could perhaps also be used to facilitate the mainstreaming of poverty, gender and environment analysis in EC interventions which is currently weak or non-existent.
27. *Delegation should introduce an informal internal support group.* This group could include not only Delegation staff but perhaps experts from outside the EC (including other donors).
28. *Reform of the NAO office.* The EC and other donors should support Govt. efforts to improve its Aid Liaison Department (and reform the NAO office and EDF unit). The NAO office should be restructured and brought fully within the normal internal processes of the MFPED. Salary supplements to Government staff in the NAO office should be phased-out.

Learning processes within the Commission

29. *EC should carry out (jointly with other donors) analytical work which is not directly linked to the preparation of new projects,* in areas such as:
- institutional assessments of political, economic and social institutions (including developments in non-state actors)
 - efforts to build consensus around a national development agenda
 - the process of public administration reform and efforts against corruption
 - public expenditure tracking and delivery surveys in key social sectors
 - the development of performance/outcome monitoring indicators.

considerable degree of autonomy available in principle to Delegations, should they wish to take advantage of it.

¹⁴⁵

Programme log-frames should have standard performance targets, e.g. on delays in disbursement compared to targets and sector averages, on % of inputs and outputs achieved, and on risk levels.

30. *EC should reinforce independent monitoring and evaluation, and carry out systematic audits of its interventions. EC should look for the participation of civil society and other donors. Interventions should be monitored on an on-going basis and mid-term reviews and independent final evaluations should be carried out systematically on time even when projects are delayed. This is particularly important given the significant financial and administrative problems that the EC has faced in a number of its projects in Uganda.*

Annex 1

EC interventions

| 7th and 8th EDF (approved) (projects and programmes > € 1 million) | | | |
|---|---|-----------------------------|-------------------------------------|
| Source of funds | Project | Amount € million | Date of commit- ment |
| SASPs | | | |
| SAF, NIP 7 th | Structural adjustment support programme | 31.25 | 1991 |
| SAF 7 th | 2 nd Structural adjustment support programme | 29.7 | 1994/5 |
| SAF 7 th / 8 th , NIP | 3 rd Structural adjustment support programme | 51.1 | 1997 |
| 7th EDF | | | |
| Stabex, NIP | Smallholder tea (STRP 7 th EDF, STDP) | 41.6 | 1992-6 |
| NIP | Uganda Health Programme | 24.0 | 1993 |
| NIP, RIP | South-West Uganda Road Maintenance Programme | 23.1 | 1994 |
| NIP | Rehabilitation of Kampala City Roads, Phase 2 | 23.0 | 1992 |
| NIP, Stabex, SASP CPF | Micro-projects programmes (various) | 21.2 | 1992-7 |
| Stabex | Universal Primary Education | 15.0 | 2000 |
| NIP | Human Resources Development | 14.5 | 1992 |
| Stabex | MTWA Tourism & Wildlife Support | 8.7 | 1993-9 |
| Stabex | Forestry bridging finance | 6.9 | 1996-9 |
| Stabex | Farming Systems Support | 5.4 | 1993 |
| NIP | Community Participation in Debt relief for HIPC | 4.6 | 1998 |
| Stabex | Debt Relief Programme | 3.2 | 1993 |
| Stabex | Silk Sector Development Project | 2.9 | 1993 |
| Stabex | Cotton Crop Financing | 2.5 | 1992 |
| Stabex | Support to NARO Coffee Research | 2.5 | 1994-8 |
| Stabex | Coffee Marketing Board | 2.3 | 1992 |
| NIP, Stabex | Support to NAO's office | 2.2 | 1993-8 |
| Stabex | Veterans Assistance Programme | 2.0 | 1992 |
| NIP | Support to Parliamentary & Presidential Elections | 1.9 | 1995 |
| NIP | Support to the Constituent Assembly Elections | 1.9 | 1993 |
| Stabex | Rehabilitation of Entebbe Cargo Handling | 1.6 | 1998 |
| NIP | Assistance to the Uganda Investment Authority | 1.4 | 1994 |
| NIP | Rehabilitation of Uganda Blood Transfusion Services | 1.1 | 1992 |
| Stabex | Rural Feeder Roads Masaka | 1.0 | 1997 |

Annex 1 EC interventions

| | | 8th EDF | |
|-------------|---|------------------------------------|------|
| NIP | Universal Primary Education | 31.0 | 1999 |
| NIP | Micro-Projects Programme | 15.0 | 1999 |
| NIP | Improving Sexual & Reproductive Health | 8.0 | 1998 |
| NIP | Uganda National Blood Transfusion Service Phase 3 | 2.6 | 1999 |
| NIP | Urgent Repair Works GBAT Water Treatment & Pumping Facilities | 2.0 | 2000 |
| NIP | Uganda Leasing Company Ltd | 1.8 | 1998 |
| NIP | Support to NAO's Office | 1.5 | 1999 |
| NIP | Support to Civic Education and Monitoring of Referendum on Future Political System | 1.0 | 2000 |
| | | Budget-lines | |
| Health/AIDS | Support for HIV/AIDS and Reproductive Health Interventions of Local NGOs and CBOs in Uganda | 1.8 | 1998 |
| | | Regional 7th EDF | |
| Regional | Lake Victoria Fisheries Research Project | 8.4 | 1994 |
| Regional | Special Programme for Countries Neighbouring Rwanda | 2.0 | 1995 |
| Regional | Pan African Rinderpest Campaign | 1.6 | 1994 |
| Regional | Farming Tsetse Controls Areas | 1.3 | 1996 |
| Regional | Agro-Forestry Network East African Highlands | 1.0 | 1995 |

Table based on calculations made by the evaluators. Information provided by the EC Delegation from their project data base (project funding analysis report (detailed) and OLAS Note: Because of the complex way in which Stabex funds have been used (with multiple channelling agreements, and the pooling of Stabex and NIP funds), an attempt has been made to group Stabex and NIP funds together where appropriate into single projects/programmes, for the purpose of clarity.

Annex 2

List of interviews

Delegation

Head of Delegation, Bernard Ryelandt
Economic Counsellor, Alain Joaris
Economic Counsellor, J.-M. Ruiz
Rural Development Adviser, Yves Gillet
Agricultural Counsellor, Otto Möller
Technical Counsellor, Paolo Ciccarelli
Third Secretary, Rural Development, Alessandro Villa
Detached National Expert, DFID, Education, Jo Bourne

Member States

Germany (meeting organised by Renata Stuth from the German Ministry of Development Cooperation):

Germany, Ambassador, Klaus Holderbaum
Germany, Deputy Head of Mission, Karin Stoll
GTZ, Chief Technical Advisor, Dieter Speidel
GTZ, Team Leader, Financial System Development Project, Alfred Hannig

Denmark, Deputy Head of Mission, Jens Rasmussen
Denmark, Counsellor, Development, Rasmus Foged

Ireland, Development Attaché, John Hoy (Sean)
Ireland, Regional Economist, Garvan McCann

Netherlands, Martin Koper

United Kingdom, DFID, Economic Adviser, Paul Mullard

Other donors

USAID, Director, Dawn Liberi
USAID, Economist, Jerry Manarolla

World Bank, Country Programme Manager, Robert Blake
World Bank, Task Manager, PRSC, Ritva Reinnikka
World Bank, Task Manager, Transport Sector, Yitzhak Kamhi

IMF, Resident Representative, Zia Ebrahim-Zadeh

Government officials (including NAO office)

*Ministry of Finance, Planning and Economic Development*¹⁴⁶

NAO/EDF Unit and Aid Liaison Department

Deputy NAO and Commissioner, Patrick Ocailap
Aid Liaison, Deputy Commissioner, Oode Obella
Aid Liaison, Principal Economist, Roland Mugabi
Aid Liaison, Principal Finance Officer, John Haguma
Aid Liaison, Senior Statistician, Gladys Kizito

Budget Policy and Evaluation

Commissioner, Florence Kuteesa
Budget Policy and Evaluation, Senior Economist, Romilly Greenhill
Budget Policy and Evaluation, Consultant Vol. 3 PEAP (Donor Coordination), John MacKinnon
Budget Policy and Evaluation, Poverty Action Fund, Ismael Magona

Infrastructure and Social Services

Commissioner, Stephen Kayondho
TA desk officer for Education, Anne Marie Ainger
Head of RSDP-Coordination Unit, Pauline Akidi
TA RSDP-CU Danida advisor, Mads Tiemroth

Bank Of Uganda

Deputy Governor, Louis Kasekende
Governors Office, Director, Henry Opondo
Executive Director Research, Polycarp Musinguzi

Ministry of Works MoWHC

Permanent Secretary, Charles Muganzi
Chief Engineering, Lawrence Lutaaya
Assistant Commissioner (Edev), A.O. Mugisa
Assistant Commissioner (F&U), Karuma Kagyina
EC project coordinator for road maintenance, Justine Ongom

Roads Agency Formation Unit (RAFU)

Director, Bernard Sperring
EU Technical Advisor, Steve Jones

¹⁴⁶ The evaluation mission regrets that the Delegation and the NAO office were not able to arrange a meeting with the PS Finance.

Ministry of Education and Sports

Commissioner Education Planning, Florence Malinga
Assistant Commissioner Planning, Godfrey Dhatemwa

Ministry of Health

Commissioner for Health Planning and IDA Projects Coordinator, Patrick Kadama
Senior Health Planner, Robert Basaza
EDF Health Programme, Technical Adviser, Wolfram Brunger

Ministry of Agriculture

Assistant Commissioner for Planning (Monitoring and Evaluation), G. Otim
(in replacement of Rhoda Tumusiime, Commissioner)

Ministry of Public Service

Director for Administrative Reform, Deborah Katuraramu

Inspector General of Government

Inspector General, Jotham Tumwesigye

Ministry of Natural Resources

EC Natural Forest Management and Conservation Project, Team Leader, Tony Finch

Uganda Tourist Board

Tourism Development Advisor, Shaun Mann

Local Government, Private sector and Civil Society

City Council of Kampala
Mayor, J. Ssebaana Kizito

Development Network of Indigenous Voluntary Associations (DENIVA)
Programme Coordinator. Information Exchange, Jane Nabunya
Programme Coordinator. In Country Training. Delphine Mugisha

Action for Development, ACFODE
Executive Director, Judy Kamanyi

Anex 2 List of interviews

Anti Corruption Coalition Uganda (ACCU)
Liaison Officer, Allen Ruhangataremwa

Foundation for Human Rights Initiative (FHRI)
Executive Director, Livingstone Sewanyana

Save the Children UK,
Country Programme Director, Greg Duly

Uganda Debt Network
Coordinator, Zie Gariyo

Private Sector Foundation, Uganda Manufacturers Association, Standard Chartered Bank
Chairman, James Mulwana

Association of Broadcasters and Radio Simba
Chairman and Managing Director, Aga Sekalala Jr.

Spear Motors Limited Daimler Chrysler
Chairman, Gordon Wavamunno