

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF UGANDA

**Poverty Reduction Strategy Paper Annual Progress Report
Joint Staff Assessment**

Prepared by the Staffs of the IMF and IDA

Approved by Abdoulaye Bio Tchané and Michael Hadjimichael (IMF)
and Theodore Ahlers and John Page (IDA)

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I. OVERVIEW

1. **Uganda's second annual Poverty Reduction Strategy Paper (PRSP) Progress Report¹ provides a candid review and analysis of the implementation of the 2000 PEAP/PRSP², and serves as an important input to the budget process for fiscal year 2002/03 (July–June).** The Progress Report (henceforth the Report) was prepared through a broad participatory process. It was published in March 2002, and subsequently submitted to Parliament as background for the proposed 2002/03 budget. The Report addresses three principal concerns, covering: (i) the implementation of the four main pillars of the PEAP/PRSP and remaining challenges; (ii) the participatory process and the further strengthening of country ownership—not just by Government, but by the wider civil society; and (iii) further analysis of household data from the Uganda Demographic and Health Survey 2000/2001, identifying the factors that have constrained the implementation of the human development strategy. The Report also discusses possible remedial measures to address problem areas encountered in 2001.

2. **In light of the prolonged deterioration in the terms of trade and the global economic slowdown in 2001, the second year of implementation of the PRSP encountered major challenges in the areas of macroeconomic, institutional, and social policies.** While there were numerous achievements during the year, PEAP targets for some important indicators, such as real GDP growth and health immunizations, were not met. Moreover, implementation was slow for some key components of the PEAP/PRSP, including the Plan for the Modernization of Agriculture (PMA), actions to improve governance, and

¹ The summary of the Background to the Budget 2001/02.

² The summary of Uganda's Poverty Eradication Action Plan (PEAP) served as the PRSP, which was broadly endorsed by the Boards of IDA and the IMF in May 2000.

the Government's Poverty Monitoring and Evaluation Strategy (PMES). These shortcomings (discussed below and summarized in the Annex) should be addressed in the forthcoming revision of the PEAP/PRSP, scheduled for mid-2003.

II. OVERALL ASSESSMENT OF THE REPORT

3. **The authorities are to be commended for further strengthening their already considerable efforts to broaden participation in the preparation of the Report.**

Production of the Report was initiated in November 2001 through a workshop involving representatives from the private sector, NGOs, donors, elected officials, and civil society. Teams involving key stakeholders were then established to review progress under each pillar of the PEAP/PRSP, and to prepare drafts for the Report. Of particular note, the PRSP process has been internalized and integrated into Government's own planning and budget procedures. All key Government stakeholders were involved in the preparation of the Report, which was submitted to Parliament as the Government's Background to the Budget³ at the time of the annual Budget presentation in June 2002.

4. **The Report is generally quite candid about both achievements and shortcomings in implementing the strategy.**

Reflecting the participatory process, the Report describes openly the concerns raised by the various stakeholders and proposes adjustments to respond to many of these concerns. It acknowledges areas where bottlenecks have occurred (for example, in the areas of governance and corruption, income opportunities of the poor, and service delivery, especially health), and where targets have not been met. In the case of the setback in infant mortality, the Report analyzes the factors behind the disappointing outcome and proposes remedial actions. This is an excellent example of the PRSP process at work—from monitoring outcomes, to diagnostic analysis, and to policy prescription. It is hoped that in the future, this approach will be extended to other challenging areas identified in the PEAP/PRSP.

5. **Staffs suggest that in the coming year, Government conduct policy-relevant empirical analyses to inform the forthcoming revision of the PEAP/PRSP.**

These should strengthen the links between evidence-based diagnosis and the revision to the poverty strategy. In the light of the experience to date, staffs consider that further analytical work is called for in the following areas. First, studies are needed into the macroeconomic implications of the increase in donor support to Uganda. These should include an analysis of debt sustainability, and an assessment of the effects of donor inflows on export promotion and growth. Such studies should also include an analysis of sources of future growth, addressing the challenge of strategic export diversification. Given the slow growth outturns in recent years, this is becoming an issue of some urgency. Second, the PEAP/PRSP revision would benefit from studies on improving the budget process, both by increasing the predictability of donor support over the medium term as well as by enhancing budget

³ The Background to the Budget is submitted each year to Parliament as background to the Budget Speech, which outlines the Government's spending priorities for the following year.

efficiency. In addition, studies supported by DFID on selected priority issues as part of Poverty and Social Impact Analysis (PSIA) should be drawn upon to improve the poverty focus of the PEAP/PRSP revision. Government needs to become more effective in transforming budgetary provision into effective services to the poor. Third, there is a need for a better understanding of the gender dimension of poverty in Uganda, particularly—though not exclusively—in the rural sector, which has hitherto suffered from relative neglect. Analytical work in all these areas is programmed in the World Bank's current economic and sector work for Uganda.

6. **The Report responds to many of the recommendations raised in the Joint Staff Assessment (JSA) of the first PRSP Progress Report.** These include the strengthening of the participatory process used in the preparation of the Report, deepening the analysis of poverty in rural areas, especially in the poorest districts in the North, and the steps envisaged in the Report to enhance competitiveness and export diversification to reduce the economy's external vulnerability. Other concerns expressed in the last JSA should be given more attention in the 2003 PEAP/PRSP, notably an analysis of overall poverty levels and income inequality based on household survey data expected to be available in 2003, the need to improve the links between poverty analysis and policies, the need to identify measures that could raise economic growth, the gender dimensions of poverty, and implementation of an action plan to upgrade the poverty monitoring systems. The staffs also suggest that in the next report, it would be useful to present a policy matrix of the programmed measures, which are currently spread throughout the Report. As part of the regular PEAP/PRSP process, the next revision of the poverty reduction strategy should reset its economic and social targets taking past experiences into account. Moreover, recalling previous JSA recommendations, the revised PEAP/PRSP should include estimates of the cost of attaining those targets. Finally, because of the long lead-time needed for producing the PEAP/PRSP documents and progress reports, there is a tendency that the macroeconomic data become out dated by the time the process is completed. For the future, Bank/Fund staffs recommend that Government update the macroeconomic data, during the final stage of a report's preparation to ensure their relevance.

III. SUSTAINED GROWTH AND STRUCTURAL TRANSFORMATION

7. **For the second consecutive year, real GDP growth of 4.5 percent in 2000/2001 fell well short of the PEAP's 7 percent growth target.**⁴ Moreover, the Report indicates that the PEAP target, which is considered necessary for lowering the incidence of poverty to 10 percent by 2017, is not expected to be achieved over the medium term. The need to accelerate the pace of economic growth is an urgent one. The general economic strategy outlined in the PEAP/PRSP continues to be relevant, involving actions to improve the investment climate—macroeconomic stability, an improvement in governance and the rule of

⁴ The Report refers to national accounts data with base year 1991. A new series developed by the Ugandan Bureau of Statistics using 1997/98 as the base year was released in June 2002. Annual real GDP growth in the new series ranges from 5.0–5.7 percent for 1999/2000–2001/02.

law, and financial sector reforms. But the institutional changes these call for will inevitably need time. Government is also pursuing actions to encourage agricultural development and export diversification, both of which should enhance growth and make the economy more resilient to shocks. The Report points to the PMA, the Medium-Term Competitiveness Strategy, and the more recent strategic exports initiative as providing the foundation for improving growth in real GDP and exports. However, the cost and implementation of these programs are not thoroughly assessed. The strategic exports program will need to be designed carefully to ensure that it supports products and activities with genuine market prospects and where Uganda has a comparative advantage in production. These considerations underscore the need for the previously mentioned in-depth analysis of Uganda's growth prospects and the likely supply-side responses to policy measures in the forthcoming revision of the PEAP/PRSP. It is also important that adequate resources be provided in the medium-term expenditure framework for supporting Government actions to promote growth and that the necessary implementation capacity is put in place.

8. **The staffs share the concern expressed in the Report about the decline in the government revenue-to-GDP ratio in 2000/01.** Although more recent information indicates that there has been some improvement in revenues relative to GDP in 2001/02, Uganda still does not compare favorably with other Sub-Saharan countries in this regard. The Report notes that Government intends to address this problem through actions to improve tax administration, including computerization, building professional skills, removing corrupt staff, and reducing smuggling. In this context, it is imperative that the Government supports the implementation of the business plan the Uganda Revenue Authority (URA) has recently submitted for improving tax collection. However, Bank/Fund staffs believe some additional tax policy measures would be needed to raise revenue significantly over time. In subsequent discussions on a program for 2002/03, the authorities have agreed to some modest policy measures, but it would be useful for the authorities to spell out the tax policy principles they seek to achieve over the medium term in the forthcoming PEAP/PRSP revision.

9. **Improving the effectiveness of Government expenditure is also critical for achieving the PEAP's growth and poverty eradication goals.** Government continued to improve the poverty focus of the budget, with protected spending under the Poverty Action Fund (PAF) rising to more than a third of total non-wage expenditure in the 2000/01 budget. Looking ahead, to safeguard priority sectors, staff would encourage the authorities to explicitly plan in the MTEF for foreseeable future liabilities, such as enactment of a pension reform. However, there is now a need to shift further the focus of sector programs from inputs to outputs and outcomes, as well as to greatly enhance the capacity for systematic monitoring and evaluation of government spending. The Bank will arrange training for government officials on methodologies to help establish such links in the budget process, as well as sponsoring the economic and sector work mentioned previously.

10. **Government has continued to make important financial sector reforms,** with improved bank supervision, and strengthened corporate governance of the sector. Substantial advances toward the privatization of the Uganda Commercial Bank have also been achieved, with the finalization of the bank's sale pending parliamentary approval. Over the medium

term these efforts should be broadened by giving more emphasis to civil service pension reform and sound financial management of the National Social Security Fund. The availability of term finance, particularly to medium-sized enterprises remains a problem. The Government should also move forward with the implementation of the micro finance outreach program to improve the access to financial services by the poor, which in rural areas is also an important component of the PMA. Since the Report was published, the proposed new Financial Institutions Bill has been submitted to Parliament. The bill would aim to depoliticize bank interventions and strengthen supervision, which would help to reduce high interest rate spreads that inhibit financial intermediation and burden the poor.

11. **In the context of the forthcoming revision to the PEAP/PRSP**, staffs would encourage the authorities to address the deterioration of Uganda's external debt sustainability position, taking into account and building upon the analytical work mentioned above (paragraph 5). In light of the volatility of food crop prices, it was agreed with the authorities during program discussions, subsequent to the publication of the Report, that the financial program should aim to maintain underlying inflation at an annual rate of 3½ percent on a period average basis. The revision of the macroeconomic framework, which would be required for the forthcoming PEAP/PRSP revision, should reflect this objective, in addition to policy responses to other pressing macroeconomic issues.

IV. GOOD GOVERNANCE AND SECURITY

12. **The Report recognizes that progress in governance has been relatively slow, but the analysis and review of the challenges facing this pillar does not set out a consistent, prioritized set of actions, which are needed to make progress.** Notable among the actions taken by Government to improve governance and security is the initiation of a pay reform strategy, which will emphasize, in the first instance, improving pay conditions for managerial, technical and professional cadres, where the divergence between civil service and private sector pay is the greatest. The Government should reflect fully the implementation of the pay reform strategy in the MTEF. Similarly, the Government has agreed on operational modalities to improve the system of intergovernmental transfers. The new approach will be introduced on a pilot basis in the next financial year. The system substantially reduces the administrative burden confronted by local governments in dealing with a multiplicity of different reporting requirements. Since a large share of poverty-related expenditure takes place at the local level of government, it is imperative that they are subject to proper accounting and audit systems. Given that the Integrated Financial Management Information system, which the Government is developing, will take time to be fully operational, interim steps should be taken to improve monitoring of local government transactions.

13. **The Report candidly acknowledges that the fight against corruption has been rather slow.** However, since the drafting of the Report some progress has been made: the new Inspectorate General of Government (IGG) Statute has been enacted and Parliament has passed a new Leadership Code, significantly expanding the reporting requirements of political leaders. The passage of the new Leadership Code is particularly noteworthy, as the previous Parliament had failed to act upon this bill. However, the impact of this legislation

will depend on its effective implementation, a point noted by the Report. The Report is exhaustive and candid in its treatment of governance issues, but largely devoid of any analysis of impacts, much less of changes in impacts over time. Data from the Uganda National Service Delivery Survey should be drawn on in future reports to evaluate progress over time.

14. **The Report outlines a number of challenges confronting the Government in improving governance and security.** The staffs would place particular stress on getting a better balance between the improvement in service delivery and the high costs of maintaining multiple districts and layers of government. Reducing these costs and increasing local government revenue mobilization capacity will be critical to increasing resources for improved services. More generally, there is a need for Government to put in place monitoring indicators to assess progress in improving governance. Work is underway in this regard in the justice, law and order sub-sector, but this should be extended to other sub-sectors, such as anti-corruption activities. Development of such indicators is particularly critical given that funding of Government interventions in this area represents a large share of total budgetary resources (e.g., expenditures on public administration account for over 20 percent of total government spending). Development of specific output indicators in the key sub-sectors will be essential to ensure appropriate budgetary allocations over the medium term. Staffs recommend more detailed information on such monitoring in future reports.

V. INCREASING INCOMES OF THE POOR

15. **The PMA continues to be the cornerstone of the Government strategy to raise rural incomes.** The PMA is the Government's framework for rural development and focuses on the wide range of interventions designed to promote rural development, which include agricultural research, advisory services, rural finance, rural roads, natural resource management, agricultural education and agro-processing and marketing. The Report under pillar 3 summarizes recent policy analysis showing the strong link between the expansion of non-farm income, education opportunities, rural infrastructure, and the reduction in rural poverty in Uganda. These links underscore the importance of the PMA for improved rural welfare. A key instrument for the implementation of the PMA is the Non-Sectoral Conditional Grant (NSCG), which was introduced on a pilot basis last year. As another important element of the rural development strategy, Government has prepared a White Paper on sustainable maintenance of District, Urban and Community Access Roads, laying the basis for more cost-effective maintenance of rural roads.

16. **The staffs consider that Government needs to continue to review the PMA's implementation performance, and take appropriate measures to ensure accelerated implementation of the Plan.** Given the centrality of the PMA for achieving the Government's poverty eradication objectives, its implementation must be put on a more urgent footing. While staffs note that over the last year there has been progress in some areas covered by the PMA—notably the launch of the new National Agriculture Advisory Service (NAADS), a demand-driven approach to provision of agriculture extension services—the implementation of most aspects of the PMA remain at very early stages. As the Report

acknowledges, this will imply moving forward quickly in putting in place the necessary institutional mechanisms, notably for the implementation of the Land Sector Strategic Plan and the rollout of NAADS. Similarly, while Government has a clear strategy of promoting micro-finance in rural areas through an outreach program, the implementation of this program has not yet begun. Government has recently held a PMA review, to assess and assure its effective implementation. While this task was the first of such reviews, these need to be held at least annually, to track implementation continually and to identify key areas requiring increased attention.

17. **An appropriate PMA monitoring and evaluation system should be set up to track progress and address implementation constraints.** This is particularly critical given the multiplicity of interventions potentially addressing rural poverty reduction. Work on such a framework has been initiated under the PMA and this should be completed at an early date to permit the development of meaningful indicators to measure progress. Further details of the monitoring framework of the PMA—including the outcome and process indicators that are to be used—should be provided in the next PEAP/PRSP. Staffs also consider that the Report gives insufficient attention to the gender dimensions of the PMA, given the important role played by women farmers. The constraints such farmers face in accessing land and other inputs (including credit) should be incorporated in the policy evaluation work of the PMA in the future.

VI. IMPROVING THE QUALITY OF LIFE OF THE POOR

18. **The persistence of high (and possibly even increasing) levels of infant mortality, despite the economic advances of the 1990s, is a major policy concern.** The adverse outcomes under pillar 4 highlight the fragility of some of the gains in human well-being that were achieved, and the important role that public policy plays. Staffs appreciate the speed with which Government has raised this issue, and analyzed what might be the responsible factors.

19. **Cost effectiveness and quality of outcomes in the social sectors are still outstanding issues to be addressed.** Although the Poverty Action Fund has protected resources provided for health, education, and water and sanitation sectors and the quantitative targets have been broadly met, there remain service quality and cost-efficiency concerns. While health user fees were abolished and access increased, service quality has deteriorated. Similarly, in education, the UPE reforms have resulted in large class sizes and unfavorable pupil-textbook ratios. The Report candidly notes that gains in the water and sanitation sector have occurred at the cost of low value for money. The findings from the value for money studies in the water sector, which are currently being carried out, should be reflected in the next progress report and PEAP revision. Finally, the population growth rate continues to remain high despite programs to arrest high fertility and increase contraceptive prevalence. Although the Report rightly highlights the progress made in controlling the AIDS epidemic, the recent DHS survey reveals that only about half of the respondents are aware of the ways to fight the disease through changing sexual behavior. All this calls for a critical review of output and outcome orientation of policy reforms in social sectors and ensure quality services

are delivered to the poor at a reasonable cost to Government and people. It also suggests that monitoring sectoral performance should increasingly involve the use of indicators of sectoral efficiency, and these should be considered as part of the PEAP revision.

20. **Government has set out a series of specific actions aimed at restoring the favorable trend in infant mortality, focusing on increasing the percentage of births attended, and increasing the coverage of immunizations.** In the view of the staffs, these emphases are appropriate. No change of course is called for, but rather greater effort to implement effectively the PEAP human development strategy. The Report refers to several actions that have been undertaken, and that immunization coverage has increased recently. But in the view of the staffs, measures also need to be taken to ensure that budget allocations to the immunization program are protected. This will call for actions to earmark resources decentralized to the districts for this purpose. Staffs also note that the fall in both immunizations and births attended is in part due to the poor quality of the service received. It is not clear to the staffs whether the measures set out in the Report will restore service quality, and this underscores the importance of the above mentioned analytical work on the budget process and effective service delivery.

VII. CONCLUSION

21. **The Report is balanced regarding accomplishments and shortcomings, and correctly highlights areas for further improvement.** The staffs welcome in particular the progress achieved in broadening the debate on poverty reduction in the country and fostering the participatory process, which the staffs view as essential elements for increased ownership. Staffs also appreciate the candor of the Report, and the promptness with which it has highlighted persistently high mortality, and analyzed the factors responsible. This reveals a welcome vigilance on the part of Government in monitoring and understanding progress (or the lack of it). But Government must give even greater attention to the implementation of certain key elements of the poverty reduction strategy—notably the PMA, the immunization program, and the implementation of the poverty monitoring and evaluation strategy. The upcoming revisions of the PEAP will provide an important opportunity to deepen the Government's understanding of poverty issues and the policy options for achieving progress (see Annex).

22. The staffs of the Bank and Fund consider that the country's efforts toward implementation of the strategy provide sufficient evidence for its continuing commitment to poverty reduction, and therefore the strategy continues to provide a credible framework for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.

STAFF RECOMMENDATIONS ON PRIORITY AREAS FOR PEAP/PRSP REVISION

- Revision of PEAP/PRSP targets and comprehensive costing of priority activities.
- Analysis of debt sustainability and its impact on macroeconomic stability.
- Presentation of steps to improve budget process and budget efficiency—at preparation, execution, and monitoring.
- Inclusion of an action plan for implementation of the fiscal decentralization program.
- Inclusion of a policy matrix which seeks to sustain growth rates and poverty reduction goals.
- Enhanced understanding of gender dimensions of poverty and policy actions to address them.
- Inclusion of measures to improve quality and timeliness of macroeconomic and poverty data.
- Assessment of PMA implementation and measures needed to accelerate progress.
- Inclusion of prioritized actions to improve governance and indicators to monitor them over time.
- Inclusion of an action plan to implement swiftly Government's Poverty Monitoring and Evaluation Strategy.
- Identification of specific measures to improve quality and cost efficiency of social sector interventions.
- Update of the medium-term macroeconomic framework.