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PROJECT PERFORMANCE ASSESSMENT REPORT

THE REPUBLIC OF UGANDA

SECOND LOCAL GOVERNMENT DEVELOPMENT PROJECT
(IDA-37730, IDA-3773A AND IDA H0410)

May 8, 2014

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Uganda Shillings (UGX)

1997	US$1. 00	UGX 1083
1998	US$1. 00	UGX 1240
1999	US$1. 00	UGX 1455
2000	US$1. 00	UGX 1644
2001	US$1. 00	UGX 1756
2002	US$1. 00	UGX 1798
2003	US$1. 00	UGX 1964
2004	US$1. 00	UGX 1810
2005	US$1. 00	UGX 1781
2006	US$1. 00	UGX 1831
2007	US$1. 00	UGX 1723
2008	US$1. 00	UGX 1720
2009	US$1. 00	UGX 2030
2010	US$1. 00	UGX 2178
2011	US$1. 00	UGX 2523
2012	US$1. 00	UGX 2505

Abbreviations and Acronyms

AAA	Analytical and Advisory Assistance
AD	Administrative Units
CAO	Chief Administrative Officer
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CSO	Civil Society Organization
DFA	Development Finance Agreement
DMRP	District Municipal Resource Pool
DTB	Development Transfer Budget
ENR	Energy and Natural Resources
ESMF	Environmental Assessment and Social Management Framework
FDS	Fiscal Decentralization Strategy
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GOU	Government of Uganda
HlPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HPPG	Harmonized Participatory Planning Guide
ICBP	Institutional Capacity Building Project
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IEGPS	IEG Public Sector Evaluation
IGG	Inspectorate General of Government
IMF	International Monetary Fund
JARD	Joint Annual Review of Decentralization
KCC	Kampala City Council
LDG	Local Development Grant
LG	Local Government

LGA	Local Government Act
LGDP	Local Government Development Project
LGFC	Local Government Finance Commission
LoGSIP	Local Government Sector Investment Program
LLG	Lower Local Government
LOGICS	Local Government Information and Communication System
HLG	higher Local Government
M&E	Monitoring and Evaluation
MDA	Ministries Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
MPS	Ministry of Public Service
MTEF	Medium Term Expenditure Framework
MTR	Mid-Term Review
NDP	National Development Plan
NGO	Non-Governmental Organization
NRM	National Resistance Movement
OPM	Office of the Prime Minister
PAD	Project Appraisal Document
PDO	Project Development Objective
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PPAR	Project Performance Assessment Report
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
RTB	Recurrent Transfer Budget
SFR	Strategic Framework for Reform
TPC	Technical Planning Committee
TTL	Task Team Leader
UBOS	Uganda Bureau of Statistics
UGX	Uganda Shilling
UNDP	United Nations Development Program
UPE	Universal Primary Education
USE	Universal Secondary Education
VFM	Value for Money

Fiscal Year

1 July - 30 June

Director-General, Independent Evaluation	:	Ms. Caroline Heider
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This report was prepared by Stefano Migliorisi (Consultant), who assessed the operations in October 2012. The Task Manager is Lourdes Pagaran. The report was peer reviewed by Michael Lav and panel reviewed by Brett Libresco. Yezena Yimer provided administrative support.

Principal Ratings

THE REPUBLIC OF UGANDA: Second Local Government Development Project – (IDA-37730, IDA-3773A AND IDA H0410)

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Satisfactory	Moderately Unsatisfactory
Risk to Development Outcome	Moderate	Moderate	High
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	Task Manager/Leader	Division Chief/ Sector Director	Country Director
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About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) covers an operation implemented over the period FY03-FY08. The project's development objective was to improve the Local Government institutional performance for sustainable, decentralized service delivery.

The report presents findings based on review of the Program Documents, the Implementation Completion and Results Reports, IEG's Implementation Completion and Results Report Review, aide-memoires and supervision reports, and other relevant materials. Stefano Migliorisi visited Uganda for IEG on October 1 – 13, 2012 to interview government officials, the staff of non-governmental organizations, project staff, donor representatives, and other stakeholders. Additional interviews with Bank staff members, donor representatives, and other informants were carried out at headquarters or by conference call.

The assessment aims, first, to serve an accountability purpose by verifying whether the operation achieved its intended outcomes. Second, the report draws lessons that are intended to inform future operations of this nature in Uganda and other low-income states.

Following standard IEG procedures, the report was shared with the government for comment. The comments received are included as Annex F.

Summary

The objective of the Republic of Uganda's Second Local Government Development Project (LGDP II) was "to improve the Local Government institutional performance for sustainable, decentralized service delivery."

At the time of appraisal, the first phase of decentralization—with the establishment of an enabling legislation, a conducive intergovernmental fiscal framework, and transfer of competencies to Local Governments—was well under way, and there was a need to support the central government and local authorities in its implementation. The focus on improved service delivery, particularly for the poor, was an important step towards achieving the Millennium Development goals on education, health, and access to water, given the predominant role of Local Governments in this respect. Project design and implementation was informed by the Mid-Term Review's recommendations and the ICR findings and lessons learned from the previous operation, LGDP I. In particular, LGDP II was designed as an instrument to mobilize broad grant support to implement decentralization reform with a possible strong demonstration effect for the future in terms of development partner coordination and harmonization.

Improved decentralized, sustainable service delivery would be achieved by (a) supporting decentralization through appropriate strategies and institutions (Component 1); (b) strengthening the capacity of Local Governments to provide better services, administer their resources, and raise more revenues (Components 3 and 4); and (c) providing direct financial support to Local Governments through non-sectoral conditional grants on a formula basis taking into account their needs, capacity, accountability and performance (Component 2).

The project was approved on May 29, 2003, became effective on October 29, 2003 and closed on December 31, 2007. The total costs at appraisal were US$165 million: US$125 million from IDA (of which US$75 million as grant), US$15 million from the Netherlands, US$14.8 million from Government and Local Authorities, US$7.5 million from Ireland, US$1.8 million from the Danish International Development Assistance (DANIDA), and US$0.3 million from the Austrian Development Corporation. Actual costs were US$181.7 million and the additional costs were funded through the appreciation of the XDR against the US dollar, and increased contribution from Government, mostly in the form of Local Development Grants.

The project was initially successful in building administrative capacity of Local Governments and supported over 30,000 sub-projects in several sectors. However, such improved administrative capacity has been underutilized due to substantial policy reversals since 2005. Institutional performance of Local Government started to deteriorate from 2007, as shown by the results of annual national assessments carried out by the Ministry of Local Government. The 2008 National Assessment, carried out immediately after project closing, showed that only 84 local governments out of the national total 1105 at the time earned rewards, while 931 were penalized, due to declining quality of record keeping, meager revenue collection, weak budgeting and planning, widespread use of force accounts against procurement regulations, and a more general lack of interest in the national assessment itself.

The policy reversals started in 2005 have included near elimination of local revenue base, reduction of transfers to Local Governments, increased percentage of conditional grants, and creation of new districts, mostly for political patronage as shown by several studies on this

topic[1]. These reversals have been hindering service delivery and value for money, as noted in the latest Bank's Country Assistance Strategy, leading to a weakening of Local Governments' discretionary powers, a centralization of functions and resources, and a reduction of available financial and human resources at district level. Each new district increases the administrative costs, takes away staff of existing ones and reduces resources available for service delivery, creating a high administrative burden at the district level, with wages consuming a large and increasing share of total expenditures, leaving insufficient funding for non-wage needs.

The combination of these factors has made the progress achieved under the project not sustainable, and affected the quality of service delivery. As the project's development objective was to improve the Local Government institutional performance for sustainable, decentralized service delivery, this Review concludes that the achievement of objectives was **Modest**. The initial improvements in the institutional performance of Local Governments were not sustainable and are currently at a high risk of being reversed due to the new Government of Uganda's attitude towards decentralization, although there have been some positive developments recently like the moratorium on the creation of new districts decided by Cabinet in March 2013. Lack of funds for operations and maintenance has subsequently led to the progressive erosion of the initial improvements in quality of management, and infrastructure.

The project's efficiency was nevertheless substantial. The sub-projects implemented under LGDP II were more cost effective compared to those under the LGDP I, even if comparable in size. Efficiency of sub-projects was relatively good, as the Value for Money Analysis, carried out by an independent firm, rated the efficiency of the subprojects it analyzed as essentially 'good' on a three-point scale.

The relevance of objectives and the project's efficiency were all substantial, while relevance of design and efficacy were modest, and the project's outcome moderately unsatisfactory. The operation was aimed at supporting the building of capacity at Local Governments and the establishment of appropriate strategies for decentralization. These enhancements, combined with direct financial support for investments in social infrastructure through sub-projects, led to a visible improvement in basic service delivery. However, the GOU policy reversals, during and after the life of the project, made such results unsustainable in the medium term.

The monitoring framework was sophisticated and included a dedicated Information and Communications System (LOGICS), designed and piloted during previous project; a financial information module (LOGICS Plus) allowing Local Governments to report on expenditures and revenues; annual Local Government performance assessments carried out by a team consisting of officials from the Ministry of Local Government, sector ministries and a private contractor for quality assurance; and a "Value for money" audit. However, the M&E design did not adequately address the multiplicity of monitoring systems, and did not include a systematic beneficiary feedback loop.

There is a high risk to the limited institutional outcomes achieved. Political commitment has declined over time, leading to substantial policy reversals from 2005 onwards. It is likely that the current trend to centralize functions and increase the number of districts, as new ones are currently being considered, will over time reduce the progress made in building capacity and accountability of Local Governments.

[1] See for example Green 2008 and Manyak and Katono 2010.

Bank's performance was moderately satisfactory. The design of the project was aligned with the Poverty Reduction Strategy Paper (PRSP) and the Bank's Country Assistance Strategy (CAS), and remains relevant to the latest CAS, and, to a lesser extent, to the latest Government's National Development Plan. Project design drew on lessons from LGDP I (i. e. , more commitment to sustainability of investments, efficiency in utilization of the capacity building grants and the broadening of Local Government own revenue sources and collection methods), as well as from the Bank's and other donors in Uganda and neighboring countries. The design also draws appropriately on the Bank's Analytical and Advisory Assistance. The Bank selected an appropriate instrument, which was part of a long history of support to decentralization dating back for at least a decade. However, the Bank did not properly react to the GOU policy reversals that led to a growth in unconditional grants not consistent with the Ugandan Constitution.

Borrower performance was moderately unsatisfactory. The Government's performance in particular was unsatisfactory. Prior to the introduction of a multi-party system in 2005, the GOU had shown strong commitment to decentralization and the project. However, since 2005, commitment has been declining, leading to a substantial reduction in Local Governments' mandates, funding, and autonomy. The performance of the Ministry of Local Government was instead satisfactory, as it led the process of reform and tried to adapt to an increasingly challenging environment.

The lessons from this operation are that:

- Policy reversals can cause serious damage to otherwise significant project outcomes, and are difficult to counter. District proliferation or reduction in un-earmarked funding or Local Governments' rights to raise revenues need to be monitored closely as they could be an early signal of policy reversal.
- Monitoring should be focused on outcome in addition to process indicators and unified across sectors.
- Decentralization is not a sector, while it was treated as such in Uganda with a Sector Working Group, a Sector Investment Plan and specific donor support. Decentralization of service delivery affects all sectors of the economy and should be supported in a harmonized way across sectors and donor programs.
- Many conditional grants to Local Governments are funded through donor programs. A fully decentralized sector allocation, supported through government budgets, requires a change in the way donors allocate funds across sectors within a given country as such allocations cannot be determined a priori any more if the choice of sectors is truly delegated to Local Governments and communities. This is often incompatible with the development cooperation frameworks of bilateral donors, or the sector-specific teams and earmarked funds of multilaterals, that work in tandem with line ministries in developing countries like Uganda.

Caroline Heider
Director-General
Evaluation

1. Background and Context

1.1 **Uganda was one of the first countries in Africa to embark on decentralization**. When the project was designed, Uganda had already 'one of the most far-reaching Local Government reform programs in the developing world' (Francis and James 2003:325), as detailed in **Annex B**. Such program went through two distinct phases as discussed below.

1.2 **Phase 1 - Establishment of an enabling legislation, a conducive intergovernmental fiscal framework, and transfer of competencies to Local Governments (1993-2004).** In 1992, decentralization was formally launched through the decentralization policy pronouncement. This was followed by Constitutional Reform (1995), and the promulgation of the Local Government Act (1997). Local Governments were given responsibilities, *inter alia*, for primary education, agriculture, water, sanitation, primary health care, and district and feeder roads, and a system of conditional as well as unconditional government grants was put in place. Development partners assisted the central government in establishing a strong legal and fiscal framework, and supported Local Governments in the provision of essential services falling under their new mandate.

1.3 During this phase, the Bank provided support through the Institutional Capacity Building Project - ICBP (1995-2002), the District Health Project (1995-2002) and LGDP I (1999-2004). The Bank in particular supported the Government of Uganda in establishing a more conducive legal and institutional framework and in experimenting with more discretion over expenditure at Local Government level and a more rational grant allocation system. Other development partners (DANIDA, UNDP) provided support on similar decentralization issues during the same period.

1.4 When the project was designed (2002-2003), the Government had just started implementing its 2002 Fiscal Decentralization Strategy (FDS) which aimed at addressing the challenges within the existing inter-governmental fiscal transfer system and revenue mobilization. It had also established by Act of Parliament the Local Government Finance Commission (LGFC) to advise Government on fiscal decentralization issues, and launched a new Local Government capacity building framework. The Bank seized the opportunity provided by this technical entry point, and offered support for its implementation through the project.

1.5 As stated in the Project Appraisal Document-PAD (World Bank 2003a: 6), "through the FDS, the Government has made the strategic choice to mainstream the LGDP approach to fiscal decentralization, emphasizing improvement in decentralization of public service delivery through greater autonomy and downward accountability of Local Governments. LGDP II directly supports this strategic choice of Government. " The FDS itself was considered by the Bank (World Bank 2003a:12) as "the strongest indicator of the Government's commitment and ownership. " During the project, the GoU was supposed to evaluate its pilot phase of the FDS and mainstream the resulting approach to all Local Governments, with follow-on support from the Bank through a future decentralization Poverty Reduction Support Credit -PRSC immediately after the closing of the project (World Bank 2003a: 10).

1.6 When FDS was approved, Local Government grants were above 30 percent of public expenditure. Support was mainly in the form of conditional grants (68 percent of the total) whose number had grown to 21 since the establishment of the Poverty Action Fund in 1998. As stated in LGFC (2012), “the key concern, in 2002, was the impact of this growth in conditional grants on local governance and development, local service delivery and sustainable implementation of the poverty alleviations commitments under the Poverty Eradication Action Plan (PEAP). Local governments were experiencing a build-up of administrative costs arising from multiple procedures, bank accounts and lines of reporting due to the increasing number of conditional grants. ”

1.7 **Phase 2- Transition to a multi-party system, recentralization and proliferation of Local Governments (2005-2012)**. In 2005, Uganda adopted a multi-party system, calling national and local elections for 2006. **As** noted in World Bank (2010), there have been substantial policy reversals since 2005 that are hindering service delivery and value for money, including near elimination of local revenue base, reduction of transfers to Local Governments, increased percentage of conditional grants, and creation of new districts. Five trends emerged, as discussed below.

1.8 **The first trend was a proliferation of Local Governments**. The number of districts, the basic unit of Local Government in Uganda, has almost doubled over the last ten years (from 56 in 2000 to 111 in 2011). A commission of inquiry in 1987 had recommended a reduction of the then 37 districts, as many were financially unviable. On the contrary, new districts were created in 1994, 1997, 2000, 2005, 2006, 2007, 2009 and 2010. By the time the project was designed, the number of districts had grown to 56 and when it closed there were already 80 districts. The total number of districts reached 111 in 2010, while the total Local Governments and administrative units grew from 50,800 in 2004 to 74,800 in 2011, an increase close to 50 percent.

1.9 According to Green (2008), most new districts were not created along ethnic or party lines. New districts were mostly used as a patronage tool, as they allowed the creation of new Parliamentary seats, and Local Government posts, each representing a patronage opportunity. “The creation of the districts did not follow any established parameters, neither was the process informed by administrative necessity or economic rationale. Instead, the President announced their creation via presidential decrees, often to reward politicians threatening to withdraw support for the NRM, or to punish those who had. ” (ARD 2005: 41). Oloka-Onyango (2007) remarks that “the strategy of district proliferation has been adopted by President Museveni as a means of dispensing patronage, and ultimately of splintering challenges to the central government hegemony and control ”

1.10 **The second trend was a progressive recentralization of competencies and key appointments**. Centralization of some functions and the reduction of discretion at local level were used to sterilize the effects of district proliferation, preventing the emergence of local politicians who could challenge the ruling elite. For example, since 2005, District Chief Administrative Officers have been appointed by central government instead of district service commissions with the aim of removing them from “pressure exerted by local politicians”. The 2010 Kampala City Bill placed Kampala under the administrative authority of the Central Government who appoints its executive director. Universal Secondary Education (USE) in Uganda was introduced in 2007 as a centrally managed service. In 2009, drug procurement was also centralized to "fight corruption." Finally, resource allocation for feeder roads has been managed by the central Uganda Road Fund since 2010.

1.11 **The third was a progressive reduction of own revenues for Local Governments**. In 2005 the Graduated Tax or G-Tax, the predominant source of local revenue, was suspended in the run up to 2006 national and local elections, as its abolition was proposed by opposition and government parties as part of their manifestos. The Graduated Tax provided Local Governments with 5 percent of their total revenues, was important for discretionary expenditures and has never been adequately replaced, as all taxes account now for less than 5 percent of Local Governments' revenues[2] whose collection is estimated to be at less than half of its potential (LGFC:2012). Local governments have become increasingly dependent on non-discretionary central government transfers, reducing accountability to local citizens.

1.12 **The fourth trend was a decline in transfers from central to Local Governments, in relative and per capita terms.** Transfers from central government to Local Governments fell from 4. 9 percent of GNI and 33 percent of public expenditure in FY01 to 3. 9 percent of GNI and 19 percent of public expenditure in FY10. The latest PER (World Bank: 2013, p. 20) found that transfers to local governments continued to decline as a share of central government revenues and expenditures in FY11 and FY12. In FY12, Local Governments spent almost 60 percent of their resources on non-discretionary expenditures like wages and salaries. In particular, unconditional and non-wage recurrent conditional grants, both of which are critical to routine supervision, oversight and management of services, declined in real terms over the period FY01-FY11 (see LGFC: 2012, p. 24). As discussed in the 2013 PER (World Bank:2013, p. 22), real per capita recurrent budgets of Local Governments have trended downwards since FY04 from a peak of USh 49,213 to USh 38,838 in FY12 (2011/12 shillings, GDP deflated), representing a drop of about 21 percent.

1.13 The growth in unconditional grants has not been consistent with the Constitutional provision (Seventh schedule) requiring that "for a given fiscal year the unconditional grant shall be equal to the amount paid to local governments in the preceding fiscal year for the same items adjusted for general price changes plus or minus the budgeted cost of running added or subtracted services". If the constitutional formula had been followed, the allocation would have been at least one third higher in FY10, according to estimates by the Local Government Finance Commission.

1.14 **The fifth trend was an increase in earmarking of funds provided by donors and government**. Tied sector conditional grants have increased as a percentage of total grants, from 72 percent in FY97 to over 86 percent in FY11 and a projected 88 percent in FY12, making it difficult for Local Governments to plan for and respond to local demand and needs. Donors contributed to the increase of conditional grants by increasing sector funding. Conditional grants were first introduced in the late 1990's through the Poverty Action Fund, growing steadily to 26 in 2002 and 38 today, each with its own formula, and eligibility rules, as discussed in **Annex B**. In 2005, after the launch of the Local Government Sector Investment Plan (LoGSIP), donors

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[2] See: (1) LGFC:2012, p. 6. "LG own source revenues have plummeted to below 3% contribution to district budgets following the scrapping of graduate tax in the 2005/06 FY." (2) Ministry of Finance, Planning and Economic Development, *Background to the Budget FY2012/1*3, Consolidated Local Government Financial Operations6, 2005/06 - 2009/10 (billion shillings), page A:37. (3) World Bank:2013, p. 8:" In the early years of decentralization, own-source revenues accounted for 8 to 10 percent of total local government revenues, whereas in recent years this figure has dipped to 5 percent or less."

established a common basket fund to support LoGSIP, while in other sectors (e. g. , Education) vertical planning tools were established, reducing Local Governments' discretionary powers.

2. Objectives, Design, and Relevance

Objectives

2.1 The PAD identified the objective of the Second Local Government Development Project (LGDP II) as "to improve the Local Government institutional performance for sustainable, decentralized service delivery" (World Bank, 2003a: 2). The formulation of objectives in the Development Financing Agreement (DFA) was identical (World Bank, 2003b: 24).

2.2 The project targeted both higher Local Governments (District Councils) and lower Local Governments (Municipalities, Sub-counties, and Town Councils). The PAD (World Bank, 2003a: 19) clarified that the final goal was "sustainable and decentralized service delivery resulting from improved LG institutional performance", with the latter being means to an end. Performance is defined as fiscal performance (as measured by the percentage of own revenues over total revenues), and budget performance, both in terms of mid-term planning (measured through the use of three-year rolling Development Plans), and reporting (measured as timely submission of accounts to the Auditor General's Office).

2.3 The development objective was not revised over the life of the project.

Relevance of Objectives

2.4 **The relevance of objectives was substantial**. At the time of appraisal, the first phase of decentralization, with the establishment of an enabling legislation, a conducive intergovernmental fiscal framework, and transfer of competencies to Local Governments, was well under way, and there was a need to support the central government and local authorities in its implementation. The focus on improved service delivery, particularly for the poor, was an important step towards achieving the millennium development goals on education, health, and access to water, given the predominant role of Local Governments in this respect. The project was therefore highly relevant and its objectives reflected the Government's ones spelled out in the Poverty Eradication Action Plan (PEAP) 2004/5 – 2007/8, namely ensuring good governance, including improvement in public service delivery and decentralization.

2.5 These objectives are less consistent with the Government's National Development Plan-NDP 2010/11-2014/15 (launched in 2010), whose theme is "Growth, Employment and Socio-Economic Transformation for Prosperity". This theme has eight objectives, including three that were addressed by the project: improving stock and quality of economic infrastructure, increasing access to quality social services, and strengthening good governance, defense and security. However, the new NDP is focusing on the final outcome (improved service delivery) giving much less emphasis to strengthening decentralization per se (e. g., the word "decentralization" was mentioned 21 times in PEAP and only twice in NDP). Finally, the project's objectives are consistent with the Bank's Country Assistance Strategy FY2011 -2015 whose second objective is to enhance public infrastructure (including roads, water and sanitation, and delivery of urban services), and third objective is to promote human capital development through improved access to and quality of education, and strengthened health care delivery.

2.6 However, the GOU *de facto* policy reversals have not influenced in any way the Ugandan Local Governments' *responsibilities* in service delivery, enshrined in the Constitution. The Ugandan Constitution (Art 189, 3) in fact states that "district councils shall have responsibility for any functions and services not specified in the Sixth Schedule to this Constitution. " Based on the Constitution, Uganda Local Governments are responsible for primary education, agriculture, water, sanitation, primary health care, and district and feeder roads. As noted in the Bank's latest CAS (World Bank 2010:6), "basic social services are delivered by Local Governments; thus, weaknesses in decentralization affect service delivery. "

Design

2.7 The project had the following five components:

- **Component 1: Support for the Decentralization Process** (appraisal estimate US$23. 8 million, actual cost US$33. 6 million). This component supported the following sub-activities: (i) Fiscal Decentralization Strategy (FDS) implementation and tools to support decentralization of the development budget; (ii) institutional structure surrounding decentralization; (iii) sector issues related to decentralization, (iv) formulating and implementing a national Local Government capacity building strategy; (v) strengthening Local Government human resource development function, (vi) audit of the accounts of lower Local Governments (LLGs)[3]; (vii) procurement capacity building at the higher Local Government (HLG)[4], and (viii) local financial management.

- **Component 2: Local Development Service Delivery** (appraisal estimate US$107. 5 million, actual cost US$118. 8 million). This component comprised a non-sectoral conditional grant (the Local Development Grant - LDG) distributed on a formula basis to all local authorities in Uganda for investment in local infrastructure in accordance with local needs as determined through local planning and budgeting processes. Access to such funding was determined by capacity, accountability, and performance conditionalities which were designed to incentivize improvements in sustainable service delivery at the local level.

- **Component 3: Local Government Capacity Building** (appraisal estimate US$15 million, actual cost US$14. 7 million). This component provided capacity building grants to Local Governments aimed at increasing the quality of training and to help establish a national system of standardized training modules recognized by all stakeholders.

- **Component 4: Local Government Revenue Enhancement** (appraisal estimate US$11. 9 million, actual cost US$8. 1 million). This component provided support to enhance the capacity of Local Governments to administer their own sources of revenue in order to

[3] Municipalities, Sub-counties, and Town Councils.

[4] District Councils.

achieve and sustain acceptable levels of service delivery. It had five sub-components namely: (i) strengthening local revenue policies and legislation, (ii) training of politicians and officials, (iii) strengthening local revenue systems, (iv) extension of property tax system, and (v) monitoring Local Government revenues.

- **Component 5: Support to Project Implementation** (appraisal estimate US$6. 8 million, actual cost US$6. 5 million). This component supported the overall coordination, implementation, monitoring and evaluation and auditing of the project.

2.8 The project focused on financial and fiscal management priorities, but tried also to ensure a balanced sector distribution of investments, by assessing performance through an 85 percent minimum threshold for investments in Poverty Eradication Action Plan (PEAP) focal areas. Sector specific grants (outside the project) remained the predominant form of Local Government funding, affecting the discretion of Local Governments and their horizontal accountability.

2.9 Capacity building grants were linked to a pre-set menu of training activities, for non-sectoral generic training and skills development, and tried to ensure that sufficient resources were spent to train sub-county staff. There was no link between the transfer of financial resources and the role realignment of central ministries or the transfer of their staff to Local Governments. The project legitimately excluded any effort to build sectoral capacity at the local level. The project focused instead on non-sectoral development and capacity building grants.

2.10 The components were not revised over the life of the project.

Relevance of Design

2.11 **The relevance of design was modest**. The project had a relatively weak Results Framework. While the causal chain between inputs (e. g. , technical assistance, training, unconditional and capacity building grants), and outputs (e. g. , improved Local Government capacity, improved social infrastructure) was clear, the outcomes identified were mostly process related (e. g. Local Governments with 3-year rolling plans, final accounts submitted on time to the Auditor General), and referred to outputs rather than to the project's PDO (e. g. , improved Local Government institutional performance for sustainable decentralized service delivery). At the same time, the demand-driven nature of sub-projects did not allow the definition of credible service delivery indicators at the appraisal stage.

Design of Monitoring and Evaluation

2.12 The monitoring framework was very sophisticated and captured well all data concerning the project including those relating to improved service delivery at the local level. The monitoring framework included: (a) the Local Government Information and Communications System (LOGICS) which was designed and piloted during the previous project; (b) LOGICS Plus, a financial information module which allowed Local Governments to report on expenditures and revenues; (c) annual Local Government performance assessments carried out by a team consisting of officials from the Ministry of Local Government, sector ministries and a private contractor for quality assurance; and (d) a "Value for money" audit. The lack of a systematic feedback loop from beneficiaries was a weakness in the M&E design. Feedback from beneficiaries was in fact introduced late in the project through a survey to assess Beneficiary Participation and Accountability under LGDP II and to inform the follow-on project.

3. Implementation

3.1 The project was approved on May 29, 2003, became effective on October 29, 2003, and had its mid-term review in June 2005. LGDP II's initial closing date of June 30, 2007 was extended once, to December 31, 2007, mainly because of the long-standing constitutional requirement of obtaining parliamentary approval for any new credit.

3.2 **Project's costs and funding** are summarized in **Table 1** below. Project costs were 10 percent higher than planned, and the extra costs were funded through an appreciation of the XDR versus the US dollar, which increase the US dollar value of the IDA credit denominated in XDRs, and a contribution from Government, mostly in the form of local development grants, that was 44 percent higher than planned. The total costs at appraisal were US$165 million: US$125 million from IDA (of which US$75 million as grant), US$15 million from the Netherlands, US$14. 8 million from Government and Local Authorities, US$7. 5 million from Ireland, US$1. 8 million from the Danish International Development Assistance–DANIDA, and US$0. 3 million from the Austria Development Corporation. Actual costs were US$181. 7 million, of which US$135. 21 million were provided by IDA, US$21. 33 million by Government and Local Authorities, US$15 million by the Netherlands, US$7. 5 million by Ireland, US$2. 4 million by DANIDA, and US$0. 3 million by Austria.

Table 1. Project Costs and Funding, Planned versus Actual (US$ million)

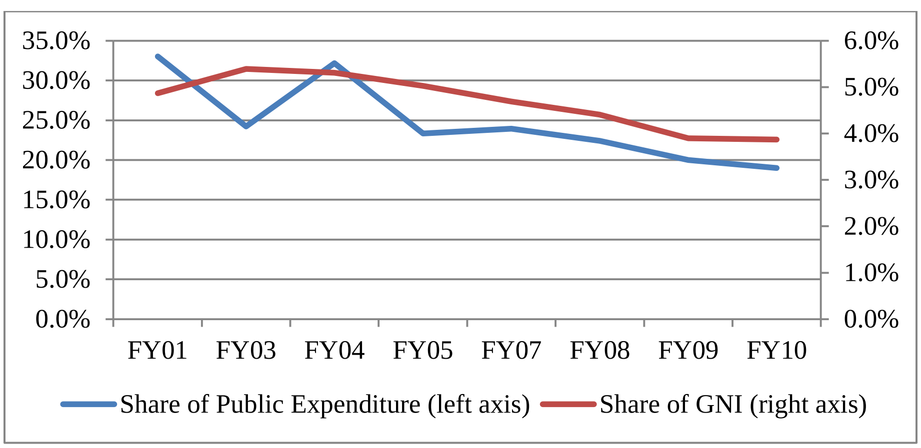
Component	Project Costs		Actual/ Planned
	Planned	**Actual**	
Component 1: Support for the Decentralization Process	22. 90	33. 61	1. 47
Component 2: Local Development Service Delivery	107. 50	118. 80	1. 11
Component 3: Local Government Capacity Building	15. 00	14. 66	0. 98
Component 4: Local Government Revenue Enhancement	11. 40	8. 15	0. 71
Component 5: Support to Project Implementation	6. 40	6. 52	1. 02
Price contingencies	1. 80		
Total	**165. 00**	**181. 74**	**1. 10**
Financier	**Funding**		**Actual/ Planned**
	Planned	**Actual**	
IDA	125. 00	135. 21	1. 08
Borrower	14. 80	21. 33	1. 44
Netherlands	15. 00	15. 00	1. 00
Ireland	7. 50	7. 50	1. 00
Denmark	2. 40	2. 40	1. 00
Austria	0. 30	0. 30	1. 00
Total	**165. 00**	**181. 74**	**1. 10**

Source: World Bank 2008

3.3 Implementation was negatively affected by the reduction in the discretionary powers of Local Governments, their weakened ability to collect local taxes and user fees, and the proliferation of districts. Transfers to Local Governments (see **Figure 1**) and unconditional grants per capita, and as a share of public expenditures and GNI, declined over time while local revenues were being reduced. Almost all allocation decisions were made at the center and the improved planning capacity of Local Governments could therefore be used only in a limited way. The proliferation of districts, carried out by splitting existing districts into smaller units due mostly to political patronage, had the dual effect of reducing capacity in these districts, and increasing costs, as each new district would add capital and operating costs and take staff away from existing ones. The pool of unconditional grants declined as a share of total grants from 32 percent in FY01 to 10. 5 percent in FY11 and to less than 5 percent in FY13, according to the latest Public Expenditure Review (World Bank: 2013), and had to be divided among a greater number of districts, making the funds available to reward performance relatively less significant over time, while non-wage recurrent conditional grants declined in real terms over the period FY01-FY11. New districts were initially dramatically understaffed with often less than 10 percent of strategic posts filled (Table 9 in Annex B).

3.4 The effect of the splitting of districts on the sustainability of decentralization is well exemplified by the case of Bushenyi, one of the best performing districts in Uganda, with chairmen from NRM both before and after the splitting (see Annex B, Table 9). Before Bushenyi was split into five separate districts in 2010, the district had a population of 723,427 receiving government grants of UGX 42,621 per capita, and was 10th in the FY09 Health District League and 11th in the FY08 Education District League (out of 80 districts) with 91percent of strategic posts filled. The splitting of the district into five in 2010 led to a reduction of per capita grants even in nominal terms for 80 percent of the combined population of the five new districts, a reduction of staffing to 81 percent for what remained as Bushenyi and to 8 percent for the other four districts. While Bushenyi itself improved its FY11 Health District League position from 10th to 2nd, the remaining four new districts fell to 61st, 68th, 93rd, and 104th position out of 112 districts, notwithstanding their sanitation rank well above the national average.

Figure 1.Transfers to Local Governments as a share of public expenditure and GNI (%, FY01-FY10)



Source: Background to the Budget, various years

3.5 **M&E Implementation** included: (a) monitoring of sub-project performance that allowed a comparison of sub-projects implemented under LGDP I and LGDP II; (b) data collection on physical benefits achieved in the three key services of health, education and water; (c) a Communities Beneficiaries' Assessment carried out by the Uganda Bureau of Statistics (UBoS) with a quantitative module covering a sample of 1,500 Households from 150 communities, and a qualitative one covering key informant interviews with 30 higher Local Governments, 30 lower Local Governments, 30 private firms and 30 civil society organizations selected randomly from within the quantitative sample; and (d) a Value for Money (VFM) Analysis, covering a sample of 1,083 sub-projects out of the total of 8,204 subprojects financed under the project.

3.6 **Fiduciary Issues**. There were no financial management or procurement issues during the project's implementation. The project contributed to a substantial enhancement of financial management and procurement capacity in Local Governments.

3.7 **Safeguards Compliance**. The project had an environmental category of B (partial assessment) which required the preparation of an Environmental Assessment and Social Management Framework (ESMF). The ICR (World Bank 2008:15) found that Local Governments followed adequate environmental screening, but did not make adequate provisions for implementing environmental mitigation measures during sub-project preparation. MoLG guidelines now require Local Governments to include funding for environmental mitigation measures in implementation contracts. The project established an environment and natural resource (ENR) management checklists for Local Governments and trained technical staff of higher Local Government in ENR management.

4. Achievement of the Objectives

4.1 The achievement of objectives will be measured first by considering achievement of PDOs, and then by considering additional evidence. The logic of the intervention was relatively simple. Improved decentralized, sustainable service delivery would be achieved by

- Supporting appropriate strategies and institutions for decentralization (Component 1) and strengthening the capacity of Local Governments to provide better services, administer their resources, and raise more revenues (Components 3 and 4); and
- providing direct financial support to Local Governments through non-sectoral conditional grants on a formula basis (see Annex B for details) taking into account their needs, capacity, accountability and performance (Component 2)

Improve Local Government institutional performance

OUTPUTS

4.2 The project's support for the Decentralization Process achieved several outputs.

- A Harmonized Participatory Planning Guide (HPPG) was provided to all levels of Local Governments (56 districts, 13 municipalities and all lower Local Governments).

- An Urban Planning Guide was printed and distributed to 93 districts and 96 urban councils and a total of 189 (95 percent) of district and urban council officials were trained in the use of the guide.
- The project supported the preparation of the principles for the revision of the Town and Country Planning Act.
- Local Government Public Procurement and Disposal of Assets Regulations were developed, published and distributed to all Local Governments.
- 370 Local Government technical staff (Chief Administrative Officers, Chief Finance Officers, and heads of departments) and 314 members of higher Local Government contracts committees were trained.
- A national Local Government assessment manual was developed, published, distributed and explained to all Local Government staff; and annual assessments were carried out with feedback to Local Governments.
- Three joint annual reviews of decentralization (JARD) were carried out leading to the development of the Decentralization Policy Strategic Framework (DPSF) - a one stop reference document on Uganda decentralization policy and a ten year Local Government Sector Investment Plan (LoGSIP).
- A total of 896 lower Local Governments were audited for FY2002/3 and FY2003/4.
- A national Local Government capacity building strategy was developed, published and launched.
- 32 standardized generic training modules (GTM) were developed, published and distributed to all Local Governments and private training providers.
- A total of 260,089 participants[5] were trained under the project. The most relevant training topics were: (i) investment appraisal and project planning (19,853 participants); (ii) management and leadership skills (16,167 participants); (iii) development planning (12,896 participants); (iv) participatory planning (12,611 participants); (v) gender mainstreaming (12,621 participants); and (vi) financial management (10,734 participants).
- District/Municipal resource pool (D/MRP) teams were institutionalized and became operational in all district/municipal Local Governments to assist technical planning committees (TPCs).
- Over 100 private training service providers for Local Governments were registered by MoLG and oriented to decentralization and training of Ugandan Local Governments in various fields.

4.3 In addition, the project provided support for revenue raising capacity.

- All higher Local Governments (districts and municipalities) and Town councils prepared and implemented annual local revenue enhancement plans.
- Trade licensing reform to simplify and shorten the trade licensing procedure was rolled-out to 10 Local Governments.
- A draft Business and Levies Bill was produced to rationalize, consolidate and repeal the existing six business and levies acts (trading licensing act, markets act; shoppers act,

[5] Local Governments' staff (137,609 participants), councilors (63,288 participants), private sector (4,620 participants), CSOs (3,238 participants), women and youth (2,654 participants) and farmers (2,519 participants).

liquor licensing act, enguli licensing act, and sugar sell act) into one simplified act which would promote business start-ups, growth and revenue generation.

- 734 Local Government officials were trained in local revenue enhancement and sensitized about the constitutional mandate and civic duties for citizens to pay taxes.
- A revenue handbook and a cost/benefit assessment tool were prepared to assist Local Governments in appraising local revenue enhancement opportunities
- Seed capital for local revenue enhancement was provided to 170 Local Governments (74 districts, 13 municipalities and 83 towns).
- 25 technical staff from weaker Local Governments were twined with strong Local Governments' staff in revenue generation to have peer-to-peer learning on revenue mobilization.
- The Local Government (Rating) Act 2005; Local Government (Rating) Regulations, 2006; a Property Rating Handbook, and a training module for property rates were produced and published.
- Officials from 92 urban councils and 13 municipalities were trained in property rates taxation.
- UGX 3. 8 billion were used to assist 60 districts, 13 municipalities and 85 towns to carry out valuation of properties and update or develop new valuation rolls which would be valid for 5 years after approval.

OUTCOMES

4.4 **Supporting appropriate strategies and institutions for decentralization**. Given the numerous reversals since 2005, this outcome was not fully achieved, as key elements of the Fiscal Decentralization Strategy were not implemented[6]. By the end of LGDP II (December 2007), the project had financed the first three Joint Annual Reviews of Decentralization which have resulted in a number of policy reforms - revision of the Local Government Act, the Local Government Finance and Accounting Regulation, the Town and Country Planning Act, and the Local Government (Rating) Act). Also, these annual reviews led to the establishment of a Decentralization Sector Working Group and the development partners pooling their resources into a basket to support the implementation of the Local Government Sector Investment Plan. A Local Government Capacity Building Policy Committee chaired by the Ministry of Local Government was established to guide the process of Local Government capacity building. The Ministry of Local Government established an in-house Capacity Building Unit aimed at providing support to all Local Governments in the formulation of their own Capacity Building Needs Assessments and Capacity Building Plans. However, as discussed later in this section, the Fiscal Decentralization Strategy, supported under component 1, was not successful.

4.5 **Strengthening the capacity of Local Governments to provide better services, administer their resources, and raise more revenues**. The capacity of Local Governments to better administer their resources was marginally improved, while the capacity to raise more revenues weakened, due to changes in legislation. Their capacity to provide better services was instead legitimately not addressed by the project as its capacity building was non-sectoral by

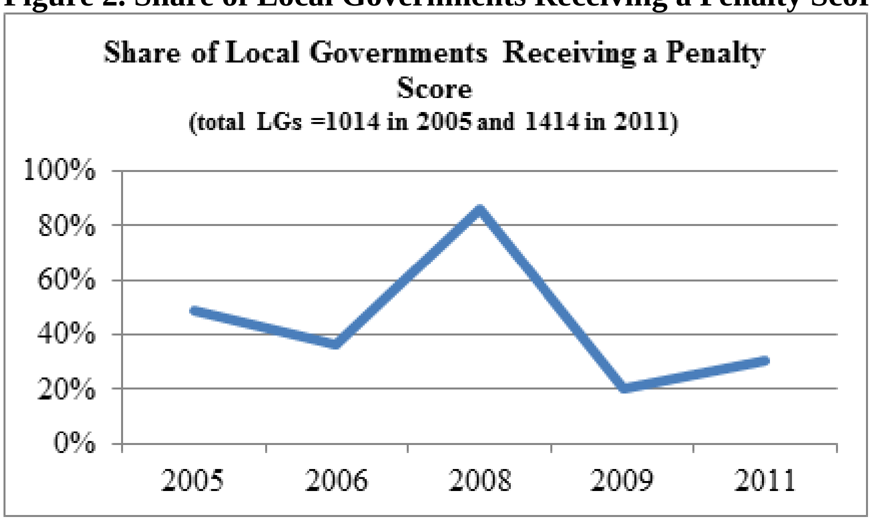
[6] The first sub-component of Component 1 focused on the "Support to the FDS Implementation and Tools to Support Decentralization of the Development Budget."

design. By the end of the project (December 2007), all higher Local Governments had good quality three year development plans linked to the budget, even though the improvements achieved up to 2006 started to deteriorate during the last year of the project, due to the policy reversals started in 2005, including the abolition of two major sources of revenue for Local Government (i. e. , Graduated Tax and Rates by owner-occupiers). Without the introduction by law of a new source of revenue to replace the Graduated Tax, the support provided by the project through the revenue handbook and related training could not achieve tangible results.

4.6 The annual national assessment of Local Governments - with an inbuilt incentives and sanctions mechanism - analyzed the level of compliance of Local Governments with laws and regulations governing their operations. After improving up to 2006, when several policies were reversed as discussed earlier, Local Governments' performance deteriorated dramatically in 2007 and 2008 (the LGDP project closed at the end of 2007), due to declining quality of record keeping, meager revenue collection, weak budgeting and planning, widespread use of force accounts against procurement regulations, and a more general lack of interest in the national assessment itself. For 2008, the assessment of minimum conditions and performance found that out of the then national total of 1105 Local Governments, only 84 earned rewards of which only 19 were districts. A total of 46 Local Governments were static while 931 were penalized on the basis of failure to meet minimum conditions.

4.7 Subsequent annual assessments (see Figure 2 for details) showed a marked improvement in 2009 and 2010, followed by deterioration in 2011. However, independence of the assessments had declined after having been fully internalized by MoLG, instead of being carried out by a team consisting of officials from MoLG, sector ministries and a private contractor for quality assurance.

Figure 2. Share of Local Governments Receiving a Penalty Score (%, 2005-2011)



Source: MOLG - Annual Assessment of Minimum Conditions and Performance Measures for Local Governments, Synthesis Report, various years

4.8 The project improved the degree of participation of beneficiaries in decision making before the policy reversals mentioned above reduced the discretionary resources to be allocated at the Local Government level. The Communities Beneficiaries' Assessment carried out by the

Uganda Bureau of Statistics through a survey of 1,500 households in 150 communities found that 36 percent of the respondents had participated in identifying development activities under the project. Of those who did participate, 63 percent reported that their priorities did appear in the Local Government plans and thereby demonstrate the responsiveness of the LGDP II planning and prioritization processes. Furthermore, 82 percent of respondents who did participate go on to report that the projects they selected were actually delivered.

4.9 Such improvements, however, have not withstood the test of time, as the reduced local discretion over expenditure has reduced the incentive for participation, as highlighted in key Government studies[7]. As noted in particular in World Bank: 2013 (p. 9), there has been a lack of attention in the reform process to building downward accountability and civil society capacity to interact with local governments, among others. Local revenues declined dramatically after 2005. The 2006 abolition of the graduated tax or G-Tax, that represented 85 percent of the revenues of Local Governments, stifled own revenues. While efforts to increase local participation in the budgeting process at the lower levels of government were better synchronized and integrated with the national budget planning process as part of the FDS, the substantially reduced discretion of Local Governments over expenditures and lower funding levels have constrained participation[8]. The combination of the centralization of the appointment of the Chief Administrative Officer (CAO), the re-centralization of district procurement, and the suspension and later abolition of the G-Tax weakened local accountability and discretionary powers over expenditure.

4.10 ***The efficacy of the first PDO is therefore rated as Modest***, as the performance of Local Governments was initially improved, before the significant drop in LG performance measured by the 2007 and 2008 National Assessments.

Sustainable, decentralized service delivery

OUTPUTS

4.11 The project provided direct financial support to Local Governments through non-sectoral conditional grants on a formula basis taking into account their needs, capacity, accountability and performance. A total of 31,832 sub-projects were implemented - the Local Development Grant were used by Local Governments to invest in roads, education , agriculture extension, health, water and sanitation, construction of public administration buildings , and solid waste management . **Figure 3** below presents the distribution of sub-projects by sector.

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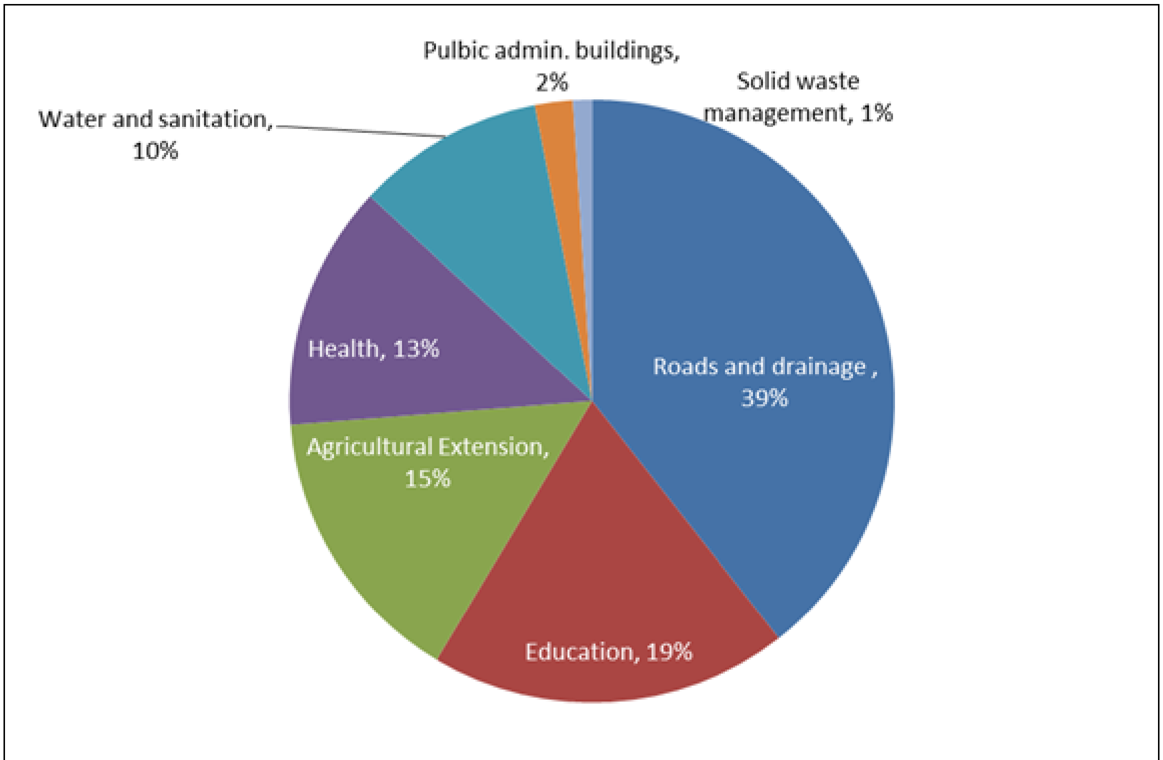
[7] See for example LGFC (2012), p. 6: "There are factors that continue to constrain participation among them: (a) the low level of financing for this process; LGs at all levels often do not have the financing to enable the levels of consultations on investment activities and to report back to communities; (b) the limited discretion means that LGs are constrained to implement priorities and objectives provided by sectors. This provides very limited opportunity for dialogues at LGs; and (c) delays in issuing budget guidelines and IPFs have often led to a reduction in the amount of time available for participation and dialogues for LGs."

[8] LGFC (2012) p. c. "Community Participation in planning and budgeting is low."

Figure 3. Distribution of Local Development Grant Projects by Sector (n=31,832)



Source: Project Monitoring Reports

4.12 The Value for Money Analysis showed an Overall Value for Money score for all sampled projects of 4. 99 out of 9, which is very close to rating Good (5 to 7 points = Good)[9]. Projects in the education sector were rated to have achieved the highest value for money (5. 68), followed by health with an average VFM score of 5. 14; water and sanitation with a score of 5. 12; administration with a score of 4. 90; roads with a score of 4. 59 and lastly production[10] with a score of 4. 51. Infrastructure sub-projects received also the lowest rating in the Community Beneficiaries Assessment. The better ratings of health and education investments is due to the fact that under the project, Local Governments were asked to ensure completeness of investments in the education and health sector, in terms of other complementary infrastructure, to make them more functional.

OUTCOMES

4.13 **The project did achieve important improvements in service delivery, but attribution is difficult**. Based on data collected by MoLG Implementation Unit, towards the end of the project's period (2006), residents had to travel an average of around 4. 5 Km to access health centers (in 1999 they had to travel at least 5. 0 Km). Primary school students had to travel an

[9] The Value for Money rating was on a 0-9 scale and equal to the sum of the ratings for economy, efficiency and effectiveness which were on a 0-3 scale each.

[10] For example, construction of valley dams and animal water troughs, seed multiplication like cassava, vanilla and colonial coffee, exotic goats, fish farming, and beekeeping.

average distance of around 1. 2 Km to reach their schools (in 1999 the distance was 1. 4Km) and persons fetching water from safe water points had to travel around 0. 8Km (in 1999 the average distance was 1. 78Km). Such reductions in distance traveled increased access to vital basic services and impact poverty reduction. However, there were several projects funded through sector conditional grants running in the same districts at the same time, and it is therefore difficult to isolate the impact of the project.

4.14 **However, the Fiscal Decentralization Strategy (FDS), supported by the project, did not achieve its main objectives as sustainability remained low**. Sustainability, an explicit element of LDGP2's PDO, was low as the inability of Local Governments to increase own revenues, and the subsequent shift from unconditional to conditional grants for almost all of the Local Government funding, reduced the ability of Local Governments to adapt the allocation of funds to meet the most urgent demands of the people they serve.

4.15 The 2002 FDS had set two broad objectives: a) to increase Local Government autonomy and widening participation in decision making, and (b) to improve the effectiveness of the Local Government programs through increased effectiveness, transparency and accountability in expenditures. The main strategy was to streamline the funds transfer mechanisms channeling grants through two systems; the Recurrent Transfer Budget (RTB) system and the Development Transfer Budget (DTB) system, to improve the balance between discretion and non-discretionary financing of Local Governments. The FDS was to lead to an overall reduction in the number of conditional grants while at the same time providing increased flexibility and the participation of Local Governments in decisions of allocations of these resources. The Development Transfer Budget system would have used the LGDP methodology.

4.16 As stated in a study of the Local Government Finance Commission (2012), the Fiscal Decentralization Strategy failed to achieve its twin objectives. Local government autonomy was reduced. The grant system was in fact not streamlined. The RTB/DTB mechanism was never adopted, while the relative importance and number of conditional grants (up to 89 percent and 38, respectively) grew substantially rather than declining. An increased flexibility in sector allocations was introduced in FY07 and abolished by Cabinet in FY09. There was substantial resistance from line ministries that limited progress in the early years of the project. For example the Ministry of Education, which accounted for the largest share of conditional grants, had become a net loser, falling back on its targets, and the Ministry of Water and Environment had witnessed a similar trend.

4.17 LGDP grants represented about 36 percent of development transfers to Local Governments between FY01 and FY07. The project effectively provided sector budget support. Funds were co-mingled with Government resources and transferred. LGDP grants were based on independent performance assessments that received strong attention at the local level. Such assessments were focused on compliance with the Local Government framework and the improved capabilities benefitted the management of all grants, including conditional ones.

4.18 In 2006 Sector Budget Support was abandoned by donors. Such interruption came at a time of declining own revenues, and had a strong impact on Local Government funding. While LGDP grants continued after the end of the project with Government funding, the assessment of performance was internalized by the Ministry of Local Government, and the relative importance of unconditional grants declined. Alignment with the country's intergovernmental fiscal system was only partial, as the LGDP formula was applied only for unconditional grants.

4.19 **The project's assumption that more capable and better organized Local Governments will improve basic service delivery, was not proven correct**, as little attention was paid to local accountability systems, particularly at the lower Local Government level, where most of the funds are spent. There was also evidence that funds could be used locally as a patronage tool. Reinikka and Svenson (2004), for example, found that the decentralization of education funds in Uganda allowed rural elites to capture the funds to the detriment of local schools and used them instead to support local patronage networks.

4.20 Today, funding for service delivery is generally low and current policies do not allow local revenue generation and contributions from local communities, as exemplified by one of the health centers supported by the project – see **Box 1**. Financing gaps vary by district. LGFC (2012) estimated that districts' revenues including grants would need to triple to meet national standards for local government services, given the funding gap currently estimated at 64 percent (World Bank:2013). The 2013 Public Expenditure Review also found that Local Governments' real per capita expenditure on education falling from USh 26,000 before FY07 to about USh 20,560 in recent years. Health expenditures have been more stable, but also trending downwards. The PER (p. 35) concluded that **district governments are less able to fund local services than in the past with a negative net fiscal impact between 2 and 10 percent of district per capita budgets.**

Figure 4. Wakitaka Health Unit in the Sub-Council Mafubira, Jinja

Source: IEG Mission

Box 1. If you live in Wakitaka and are pregnant, remember to charge your phone every day

Wakitaka is a village in the sub-county of Mafubira, part of the district of Jinja. The Wakitaka Health Unit, the only such unit in the sub-county, received project support to build a house for health staff working at the center (on the right in the above picture).

The unit is headed by a young and energetic nurse and serves about 20-30 patients a day. The main problem is the sub-county council has not paid electricity bills for a total of UGX1 million and the power company has cut off power supply several months ago.

The head nurse was able to mobilize support from NGOs to buy solar panels, but could not afford batteries. As a consequence, there is no power at night or when the sky is cloudy. As a result, pregnant women delivering at night are assisted under the light generated by mobile phones, and using tools sterilized during the day. Vaccination for children is usually offered once a week. As the refrigerator cannot be powered and the staff does not want to turn away mothers that might show up, doses are picked up in Jinja in the morning and unused ones are returned late in the afternoon, with a trip of about 25 km back and forth.

Source: PPAR TEAM

4.21 ***The efficacy of the second PDO is therefore rated as Modest***, compared to substantial in the ICR. The achievements of the project in service delivery were not sustainable and are being reversed due to the new Government attitude towards decentralization. The entire intervention logic rested on the assumption that service delivery would improve by moving decision making closer to the beneficiaries. This did not happen, as the discretion over expenditure was reduced rather than increased. Lack of funds for operations and maintenance has subsequently led to the progressive erosion of the initial improvements in quality of management, and infrastructure. According to LGFC (2012), there is currently a 54 percent funding gap for the management functions of planning, supervision and monitoring of service delivery as well as auditing and infrastructure maintenance that does not allow Councils to execute their role in this respect.

5. Efficiency

5.1 Neither the PAD nor the ICR calculated an ERR/FRR on the grounds that benefits would be difficult to quantify. There are, however, a number of observations that can contribute to an overall assessment of efficiency.

5.2 **Cost Effectiveness**. The ICR, however, noted that the sub-projects implemented under LGDP II were more cost effective compared to those under the LGDP, even if comparable in size. It states that the average cost of the sub-projects financed under the project was 88 percent of the average cost of sub-projects implemented under the previous project (even without accounting for inflation) except for education and health sub-projects which were higher (110 percent). This is because under the project, Local Governments were asked to ensure completeness of investments in the education and health sector, in terms of other complementary infrastructure, to make them more functional.

5.3 **Operational Efficiency**. Economy[11] and Efficiency[12] of LGDP II's sub-projects, accounting for two thirds of actual project costs, were also relatively good, as the Value for

[11] Economy in the VFM analysis referred to minimizing the cost of resources used for an activity, with due regard for appropriate quality - and is audited in terms of deviations between budgeted cost, contract price; actual cost or market cost and defect cost. "Economy" was rated as: Best (3); Good (2); Fair (1); or Poor (0).

Money Analysis, carried out by an independent consultancy firm, rated the economy of subprojects it analyzed at 1. 7 and their efficiency at 1. 62 out of 3 (the minimum rating for good is 1. 67). The project was carried out within the timeframe envisaged at design, as the revision of the closing date was due to the time needed for Parliamentary approval, which was relatively fast. Costs for project management and coordination were low at 4 percent of total project costs, and there was a relatively small cost overrun (6. 25 percent).

5.4 The above findings lead IEG to rate the project's efficiency as ***Substantial***.

6. Ratings

Outcome

6.1 Several ratings (i. e. , relevance of objectives, and efficiency) were substantial, but the project's efficacy and the relevance of its design were both ***modest***. The operation supported the building of capacity at Local Governments and contributed with direct financial support for investments in social infrastructure through sub-projects, to visible improvements in basic service delivery that were not sustainable, due to GOU policy reversals during and after the life of the project. Due to its modest efficacy, IEG rates the outcome of the project as ***Moderately Unsatisfactory.***

Risk to Development Outcome

6.2 The risk to the institutional outcomes achieved is rated ***high***. Political commitment has declined over time, leading to substantial policy reversals from 2005 onwards. It is likely that the current trend to centralize functions will over time reduce the progress made in building capacity and accountability of Local Governments. A positive development in this respect is the Cabinet's decision (made in March 2013) to place a moratorium on the creation of districts and to withdraw from parliamentary consideration the pre-existing proposal for the creation of 25 new districts.

6.3 Patronage was the political economy factor that most influenced project performance. The proliferation of districts, as discussed earlier, was driven by patronage, and sterilized by centralization of control and reduction in local discretionary powers, after the introduction of multi-party politics. The swing in the ruling party attitude towards decentralization of powers and functions was difficult to foresee in 2003. The 2013 PER (World Bank: 2013, p. 37) estimated that the impact of the creation of new districts on public expenditures has been low so far because the number of vacant positions in district governments has been increasing along with the number of districts, and the real wage bill of district governments has been eroded by a recent outburst of inflation. However, it concluded that such impact is likely to increase in the future, making district proliferation a potential "time bomb."

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[12] Efficiency in the VFM analysis referred to the investment processes and was defined in five stages: planning and approval process; procurement process; implementation process; financial management; and commissioning /handover process. Efficient execution of a sub-project ("efficiency") was rated as: Best (3); Good (2); Fair (1); or Poor (0).

6.4 At the same time, a political economy factor to be considered is represented by the preferences and modes of operations of donors. Sector approaches can often collide with decentralization.

Bank Performance

QUALITY AT ENTRY

6.5 The design was aligned with the PRSP and the Bank's CAS, and remains relevant to the latest CAS. The design drew on lessons from LGDP I as well as from the Bank and other donors in Uganda and neighboring countries. The design also draws appropriately on the Bank’s Analytical and Advisory Assistance, although the PAD included no reference to any study made outside the Bank. The Bank selected an appropriate instrument, which was part of a long history of support to decentralization dating back for at least a decade. However, the results framework was focused on process (e. g. , development of 3-year rolling development plans, final accounts submitted on time to the office of the Auditor General) rather than outcome indicators and the risk of policy reversal was set as moderate, and therefore partly underestimated, representing moderate shortcomings in the project design, while the M&E system was strong.

6.6 As noted in the ICR (World Bank 2008:10), project design and implementation were informed by the MTR recommendations and the ICR findings and lessons learned for LGDP I. In particular, in line with the MTR recommendations, the project was designed as an instrument to support the Government’s Fiscal Decentralization Strategy, leading the way towards a more permanent intergovernmental fiscal transfer system, and to mobilize broad grant support to implement decentralization reform with a possible strong demonstration effect for the future in terms of development partner coordination and harmonization.

6.7 The entry point was provided by the approval by Cabinet of the Fiscal Decentralization Strategy in June 2002. As the project supported a revamping of the intergovernmental fiscal transfer system, it was not selective in terms of jurisdictions or communities it sought to support. The project covered all higher Local Governments, and tried to address the issue of Local Government funding in a systematic way, trying to replace conditional grants funded through Uganda’s Poverty Action Fund with the LGDP approach, that was supposed to be mainstreamed for development transfers to Local Governments.

6.8 The Bank sought to use IDA resources to help develop a rules-based, transparent intergovernmental system (i. e., beyond simply financing local investments)[13], but failed to achieve this objective, even though most local investments were completed successfully.

6.9 Considering the relevant but ambitious design, Quality at Entry is rated ***Moderately Satisfactory.***

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[13] See PAD (p.6): “Through the FDS, the Government has made the strategic choice to mainstream the LGDP approach to fiscal decentralization, emphasizing improvement in decentralization of public service delivery through greater autonomy and downward accountability of local governments. LGDP**II** directly supports this strategic choice of Government, and other donors are increasingly supportive of this approach.”

QUALITY OF SUPERVISION

6.10 There were ten supervision missions with an input of 152 staff weeks over a 5-year period. The project had one Task Team Leader for its duration, from preparation to closing with a second one appointed only at the time of the ICR. ISRs always rated project performance satisfactory, even after the policy reversals of 2005-2006, a sign that their relevance might have been underestimated by the Bank team. There was good donor coordination, with several donors funding LGDP II directly. However, the importance of direct funding of Local Governments by donors through conditional grants grew over time and undermined some of the project's achievements in terms of donor coordination and harmonization.

6.11 The Bank was quick to adapt to the Government's policy reversal and tried to react to the abolition of the Graduated Tax by (a) highlighting the need for adequate compensation of Local Governments by Central Government for the loss of the Graduated Tax revenue; (b) preparing a note which assisted government to identify alternative own revenue sources to replace the Graduated Tax; and (c) supporting the Government request to use part of the credit to facilitate Local Governments to improve their revenue collection efficiency from their own revenue sources. However, a stronger reaction to the policy reversals and a growth of unconditional grants below constitutional requirements (as discussed in para 1. 13) could have been possible considering also the related PRSC operations running at the same time. Overall, the Bank Supervision Performance was ***Moderately Satisfactory***.

6.12 Taking account of both Quality at Entry and Supervision performance, the Bank's Overall Performance was also ***Moderately Satisfactory***.

Borrower Performance

GOVERNMENT PERFORMANCE

6.13 The Government's performance was ***Unsatisfactory***. Prior to the introduction of a multi-party system in 2005, the GOU had shown strong commitment to decentralization and the project. However, since 2005, commitment has been declining, leading to a substantial reduction in Local Governments' mandates, funding, and autonomy, even though the recent Cabinet decision to declare a moratorium on the creation of new districts is an encouraging sign of a more conducive environment for decentralization in the near future.

IMPLEMENTING AGENCY PERFORMANCE

6.14 The MoLG's performance was ***Satisfactory***. It led the process of reform and tried to adapt to an increasingly challenging environment. The Ministry ensured that the grants were transferred on a timely basis to Local Governments, funds were not diverted and the necessary policy reforms such as the restructuring of Local Governments, identification of new taxes for Local Governments, support for urban planning, and support to update Local Governments' valuation rolls were achieved.

6.15 Considering the importance of the Government's policy reversals and the moderately unsatisfactory outcome rating, IEG rates Borrower Performance as ***Moderately Unsatisfactory***.

Quality of M&E

6.16 **M&E Design.** As discussed in the section on relevance of design, the monitoring framework was very sophisticated and captured well all data concerning the project including those relating to improved service delivery at the local level. However, the M&E design did not adequately address the multiplicity of monitoring systems[14], the need for independent impact assessments and a systematic beneficiary feedback loop.

6.17 **M&E Implementation**. As discussed in the section on implementation, there was substantial monitoring of sub-project performance, data collection on physical benefits achieved in the three key services of health, education and access to water; a Communities Beneficiaries' Assessment (although only late in the project); and a Value for Money (VFM) Analysis, covering a sample of sub-projects.

6.18 **M&E Utilization**. M&E information was used to analyze the performance of Local Governments and determine their eligibility for grant funding under Component 2. It also allowed a real time monitoring of project performance. LOGICS, however, did not replace existing monitoring systems at the sector level but drew from them, leading at times to duplication of efforts and poor reporting. LOGICS is not effectively used by Local Governments, and suffers from, *inter alia*, inadequate funding, poor ICT infrastructure, unreliable power supply, limited computer literacy, and multiplicity of information systems in Local Governments. [15]

6.19 Considering its sophisticated design, and good implementation and use, partially counterbalanced by the lack of integration of LOGICS with other monitoring systems, and limited beneficiary feedback loop, the overall quality of the project's M&E system is rated as ***Significant***.

7. Lessons

7.1 The first lesson is that policy reversals can cause serious damage to otherwise significant project outcomes, and are difficult to identify and counter. Although sometimes harmful, policy reversals are not uncommon and fall under the sovereign right of nations to determine their own policies. With local government development projects early warning signals should include any significant increase in the number of districts, or reduction in un-earmarked funding or Local Governments' rights to raise revenues. When early warning signals of major policy reversals appear, particularly if motivated by political patronage, the Bank should consider whether withdrawal of support for decentralization could lead to better results than trying to continue to work with Local Governments under the new policy environment.

7.2 The second lesson is that monitoring should be focused on outcome in addition to process indicators, and it should be unified across sectors. The project achieved an impressive series of

[14] This issue was highlighted in the Mid-Term Review (p. 13):" There is a need to consider merging MIS systems that were operating in LGs e.g. LOGICS, IFMS, LOGFIAS, NIMES, FDS."

[15] See for example http://makir.mak.ac.ug/handle/10570/2284 .

outputs at the local level, but was not sustainable. As the vision pursued under the Fiscal Decentralization Strategy was abandoned, the project continued producing outputs that could not be adequately maintained over time, rather than being suspended or restructured. The parallel functioning of the project's M&E systems and those of other sector programs within the same Local Governments should be avoided as it duplicates efforts and makes attribution more difficult.

7.3 The third lesson is that decentralization is not a sector, while it was treated as such in Uganda with a Sector Working Group, a Sector Investment Plan and specific donor support. Decentralization of service delivery affects all sub-national units and all sectors of the economy and should be supported in a harmonized way across sectors and donor programs. Resistance by line ministries and donors alike, worried about having control of the achievement of key results, undermined Local Governments leading to a significant missed opportunity. Had decentralization shown stronger results by 2006, would it have been so easily reversed?

7.4 The fourth lesson is that a fully decentralized sector allocation, supported through government budgets, requires a change in the way donors allocate funds across sectors within a given country, often using conditional grants to reach Local Governments. If the choice of sectors is truly delegated to Local Governments and communities, such allocation cannot be determined a priori. This is often incompatible with the development cooperation frameworks of bilateral donors, or the sector-specific teams and earmarked funds of multilaterals, that work in tandem with line ministries in developing countries like Uganda.

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Annex A. Basic Data Sheet

THE REPUBLIC OF UGANDA: SECOND LOCAL GOVERNMENT DEVELOPMENT PROJECT (LOAN IDA – 3770, AND 3773A, AND GRANT IDA H0410)

Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	165. 0	181. 7	110%
Loan and grant amount	125. 0	135. 2	108%
Cofinancing	40. 0	46. 5	116%
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements (amounts in US$ million)

	FY04	***FY05***	***FY06***	***FY07***	***FY08***
Appraisal estimate (US$M)	34. 1	73. 9	114. 0	125. 0	125. 0
Actual (US$M)	31. 6	80. 4	108. 0	135. 0	135. 2
Actual as % of appraisal	93%	109%	95%	108%	108%

Project Dates

	Original	Actual
Initiating memorandum	06/10/2002	06/10/2002
Negotiations	04/07/2003	04/10/2003
Board approval	05/29/2003	05/29/2003
Signing		06/20/2003
Effectiveness	08/31/2003	10/29/2003
Closing date	06/30/2007	12/31/2007

Staff Inputs (staff weeks)

Stage of Project Cycle	*Staff Time and Cost (Bank Budget Only)*	
	No. of staff weeks	*US$ thousands (including travel and consultant costs)*
LENDING		
FY00		
FY01		
FY02	1	25. 74
FY03	45	252. 75
Total	46	279. 49
SUPERVISION/ICR		
FY04	33	181. 36
FY05	36	227. 45
FY06	35	133. 15
FY07	26	84. 07
FY08	22	66. 49
Total:	**152**	**692. 52**

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend	Types of problems
Identification/ Preparation							
Appraisal							
Supervision	7/2003-11/2007				S	S	
Completion					S	S	

Other Project Data

Borrower/Executing Agency:

Follow-on Operations			
Operation	***Credit no.***	***Amount (US$ million)***	***Board date***
Local Government Management and Services Delivery Project	IDA-43720	55	Dec. 8, 2007

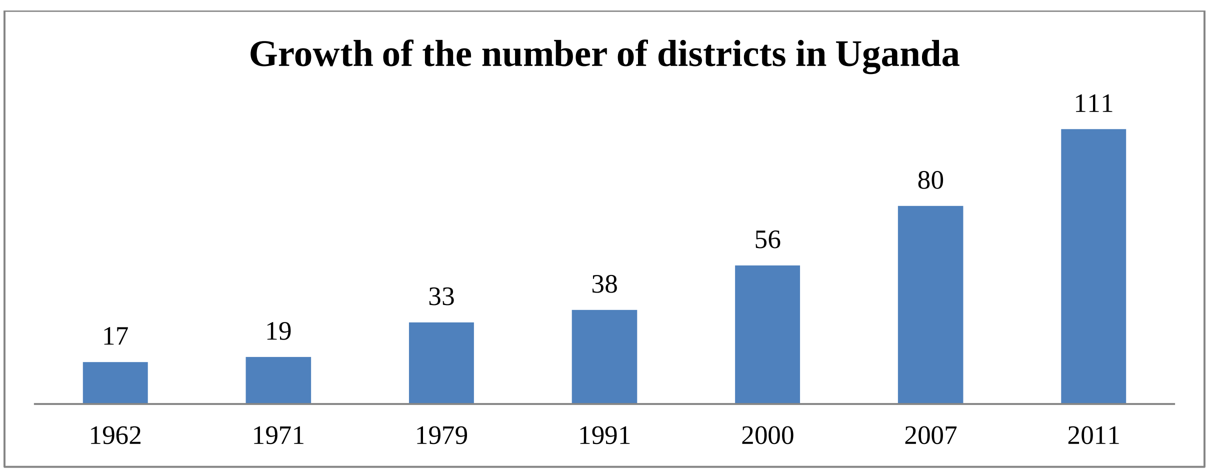
Annex B. Local Governments in Uganda – Overview and Timeline

The system of Local Government in Uganda is a five-tiered one, consisting of (i) districts, (ii) counties, (iii) sub-counties, (iv) parishes, and (v) villages (rural) or wards (urban). Only districts, cities, municipalities and sub-counties are legal persons with capacity to sue and be sued, and vested with executive and legislative powers. The Constitution of Uganda states that the district is the basis of the Local Government system and that it is a unit under which other lower Local Government and administrative structures operate. The autonomy of Local Government, in other words, finds expression in the powers and functions of districts as the main unit of local governance. Districts are centers of political and administrative power.

The Constitution provides for a district chairperson as the political head of a district. The Local Government Act (LGA) confers the title of "mayor" on the district chairperson. The chairperson is directly elected by universal adult suffrage.

Under Part I of the Second Schedule to the LGA districts are mandated to perform a range of functions. They provide **education services** as well as **medical and health services by running hospitals**. They are furthermore tasked with the provision of **maternity and child welfare services and the control of communicable diseases** such as HIV/AIDS, leprosy and tuberculosis. Districts must control the spread of diseases and provide **rural ambulance and primary health care service**s. Hence districts are important structures in the public health sector. In addition, districts provide **water services**, including the maintenance of water supplies in liaison with the relevant line ministry. Finally, districts are required to provide **road services** (Singiza 2010).

Figure 5. Number of districts in Uganda (1962-2011)



Source: PPAR TEAM

Figure 5 shows that the number of districts increased by almost 50% during the life of the project, and grew by over one third after the project closed. **Table 2** shows instead that all types of Local Government grew by almost 50 percent between 2004 and 2011.

Table 2. Growth in Local Government (LG) and Administrative (AD) Units by Level

Level	2004	2011	% change
District Councils (including Kampala City Council) (LC 5) LG	56	112	100%
County Councils (LC4) AD	151	164	9%
Municipal Councils	13	22	69%
City Divisions	5	5	0%
Sub-county Councils (LC3) LG	857	1,116	30%
Municipal Divisions	34	56	65%
Town Councils	69	174	152%
Parishes (including city wards) (LC2) AD	5,225	7,138	37%
Villages (LC1) AD	44,402	66,036	49%
Total	**50,812**	**74,823**	**47%**

Source: Local Government Commission (2011)

Table 3 shows the distribution of resources among wages, recurrent and development expenditures. *Local Governments are defined here as Districts, Municipalities and Town Councils, as* the Administrative Units receive resources from the respective councils or divisions. It is clear that Local Governments account for a large share of the wage bill but have proportionally less resources for development and recurrent costs.

Table 3. Central Government Fiscal Operations (UGX billion, outturns)

UGX billion	FY09	FY10	FY11	FY12 (Projected)	% cumulative
Government Budget	**4,499**	**5,898**	**9,863**	**7,744**	100%
Wage bill	1,185	1,308	1,659	1,910	22%
Recurrent	2,107	2,999	4,314	3,695	47%
Development	1,207	1,591	3,890	2,139	32%
Local Government Budget	**1,150**	**1,299**	**1,506**	**1,602**	**100%**
Wage bill	664	707	914	940	58%
Recurrent	268	276	237	295	19%
Development	218	316	355	367	23%
Share of LG					
Wage bill	56%	54%	55%	49%	
Recurrent	13%	9%	5%	8%	
Development	18%	20%	9%	17%	

Source: The Background to the Budget - 2012/13 Fiscal Year

Table 4 shows the functional distribution of Local Government expenditure with a preponderance of education (44 percent), health (14 percent) and general administration (23 percent) accounting for 91 percent of the total.

Table 4. Functional Classification of Local Governments' Expenditure

UGX billion	FY09	FY10	FY11	FY12	Share

				(Approved)	
General Public Administration	267	302	284	257	23%
Public Order and Safety Affairs	4	3	3	3	0%
Education	455	487	539	651	44%
Health	136	201	167	175	14%
Community and Social Services	25	47	33	21	3%
Water	21	22	30	24	2%
Economic Affairs and Services					0%
Agriculture	84	129	118	80	9%
Roads	39	66	52	32	4%
Other economic services	7	8	19	14	1%
Total	**1,038**	**1,265**	**1,245**	**1,257**	**100%**

Source: Uganda Bureau of Statistics

The consolidated financial operations by Local Governments, as shown in table, show a preponderance of grants. Such grants, as shown in **Table 5**, are mostly conditional, provided by various line ministries on the basis of different formulas, some extremely complicated. There are currently 38 conditional grants given to each Local Government on an annual basis.

Table 5. Consolidated Local Government Financial Operations (FY06-FY10, UGX Billion)

UGX billion	FY06	FY07	FY08	FY09	FY10
Revenue	**1,018. 1**	**1,075. 7**	**1,143. 2**	**1,265. 3**	**1,567. 0**
Taxes	49. 8	35. 7	42. 7	16. 3	25. 7
Grants	931. 9	1011	1,064. 2	1,211. 2	1,496. 4
Other revenues	36. 4	29	36. 3	37. 8	44. 9
Expenses	**932. 1**	**987. 3**	**1,029. 8**	**1,177. 5**	**1,440. 5**
Compensation of employees	478. 5	567. 3	619. 8	644. 5	709. 9
Use of goods and services	396. 1	319	238. 5	289. 7	295. 1
Consumption of fixed capital	1. 1	0. 4	0. 4	0	0. 5
Interest	0	0. 4	0	5. 5	0. 1
Subsidies	0		0		
Grants	55	96. 7	163. 5	228. 7	426. 5
Social benefits	1. 4	2. 2	2. 7	5. 3	6. 1
Other expense	0	1. 3	4. 9	3. 8	2. 3
Net Operating balance	**86. 0**	**88. 4**	**113. 4**	**87. 8**	**126. 5**
Grants/Revenue	92%	94%	93%	96%	95%
Grants/Expense	100%	102%	103%	103%	104%

Source: The Background to the Budget - 2012/13 Fiscal Year

Districts are heavily dependent on government grants representing 95 percent of revenues. District performance, assessed annually to determine allocations of unconditional grants (a small fraction of the total), seems to be extremely variable as show in **Table 6**. The National Assessment Exercise is carried out once a year to measure the extent to which a Local

Government meets a series of set minimum conditions and performance measures which are derived from applicable policies, laws, regulations and guidelines. Among others, financial management, procurement and tendering are extensively examined during the assessment. Local Governments not meeting such minimum conditions are penalized with a smaller allocation of unconditional grants, while those exceeding them are rewarded.

Table 6. Distribution of Districts and Municipal Councils by Performance as assessed by MoLG

Status	2005	2006	2008	2009	2010	2011
Penalty	26	19	59	63	17	22
Static	16	19	18	7	67	30
Reward	14	27	16	22	50	81
None				1	1	1
Total	**56**	**65**	**93**	**93**	**134**	**134**
of which						
Districts (including Kampala City Council)			*80*	*80*	*112*	*112*
Municipal Councils			*13*	*13*	*22*	*22*

Source: National Assessment 2008 and MoLG Policy Statements 2010, 2011 and 2012

Table 7. Composition of Grants to Local Governments (F06-FY12, UGX billion)

Grants	Approved estimates of revenues and expenditures					Outturn	Budget	Share
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	
Unconditional Grants	98. 40	94. 30	132. 00	133. 60	144. 60	157. 20	192. 32	11%
Conditional Grants	735. 80	840. 60	914. 50	1,004. 50	1,145. 90	1,212. 31	1,459. 50	86%
Equalization Grants	3. 50	3. 50	3. 50	3. 50	3. 50	3. 14	3. 49	0%
Graduated Tax Compensation	34. 80	45. 00	12. 00	32. 00	45. 00	44. 46	-	3%
Total Grants	**872. 50**	**983. 40**	**1,062. 00**	**1,173. 60**	**1,339. 00**	**1,417. 11**	**1,655. 31**	**100%**

Source: The Background to the Budget – 2012/13 Fiscal Year

Notwithstanding the efforts of the project of increasing unconditional grants, conditional (earmarked) grants still represent the vast majority of the decreasing grants to Local Governments. The combination of declining Local Governments' tax revenues and the increase in earmarked funding from the center has effectively reduced Local Governments' autonomy in the country.

The progressive fractioning of districts through the constant creation of new ones make historical comparison of financial flows and performance at the district level difficult. **Table 9** has been assembled as part of this PPAR by combining available information on the territorial origin of new districts with financial data. Districts and municipal councils are the highest tier of sub-national governments in Uganda, and, as shown in **Table 8** from Green (2008), among the smallest in Sub-Saharan Africa. It should be noted that since 2008, the average population per district in Uganda has fallen from 383,071 to 216,315.

Table 8. Sub-National Administrative Units (Highest Level) for Sub-Saharan Africa countries with a population of more than twenty million, by number

Country	Name of Unit	Number of Units	Population/Unit
Uganda	**Districts**	**79**	**383,071**
Nigeria	States	37	3,563,784
Sudan	State	26	1,483,077
Tanzania	Region	26	1,555,923
Ethiopia	States	11	7,011,545
DR Congo	Province	11	5,694,182
Mozambique	Province	10	1,945,182
Ghana	Region	10	2,347,800
South Africa	Province	9	5,397,444
Kenya	Province	8	4,692,250

Source: CIA World Factbook, US Census Bureau - from Green (2008)

How are grants determined?

Unconditional Grants. Between 1993 and 1998, unconditional grants were distributed based on a formula that considered child mortality (40 percent), school age population (40 percent), general population (10 percent), and area (10 percent). In 1998 the formula, criticized for being too complicated was replaced on a formula giving an 85 percent weight to population and 15 percent to land area, after a constant of UGX 160 million per district had been taken into consideration to pay for the administrative structures of districts that were essentially the same. 85 percent of the difference between the total available for unconditional grants and the constant times the number of district was then allocated based on population and 15 percent on land area. The constant was later removed from the formula.

Table 9. Evolution of Districts in Uganda (2001 – 2011)

No.	2001 District	2001 Population-2002 Census	2007 No.	2007 District	2007 Population-2002 Census	Per capita FY09 grant (UGX)	Health League Table FY09	% Strategic Posts Filled	2011 No.	2011 District	2011 Population-2002 Census	Per capita FY11 grant (UGX)	Health League Table FY11	% Strategic Posts Filled	Sanitation Rank
1	Adjumani	202,290	1	Adjumani	202,290	34,075	51.40	27%	1	Adjumani	202,290	41,811	42. 70	38%	52
2	Apac	683,993	2	Apac	415,578	44,974	52.80	64%	2	Apac	249,656	49,668	55. 30	62%	56
			3	Oyam	268,415	44,644	60.00	27%	3	Oyam	268,415	47,993	56. 50	62%	68
									4	Kole	165,922	43,991	40. 40	8%	33
3	Arua	833,928	4	Arua	559,075	32,296	57.60	82%	5	Arua	559,075	44,216	52. 70	77%	47
			5	Koboko	129,148	54,519		45%	6	Koboko	129,148	48,557	49. 40	46%	26
			6	Nyadri	145,705	91,198	42.50		7	Nyadri	145,705	54,322	52. 20	8%	35
4	Bugiri	412,395	7	Bugiri	412,395	37,850	59.10	73%	8	Bugiri	266,944	41,949	52. 80	77%	50
									9	Namayingo	145,451	38,858	39. 70	8%	41
5	Bundibugyo	209,978	8	Bundibugyo	209,978	43,867	57.60	45%	10	Bundibugyo	158,909	51,929	52. 70	46%	45
									11	Ntoroko	51,069	50,070	22. 90	8%	35
6	Bushenyi	731,392	9	Bushenyi	731,392	42,157	75.20	91%	12	Bushenyi	205,671	41,839	74. 20	85%	64
									13	Buhweju	82,881	30,670	40. 10	8%	39
									14	Mitoma	160,802	41,753	44. 70	8%	46
									15	Rubirizi	101,804	34,507	53. 70	8%	50
									16	Sheema	180,234	50,124	52. 50	8%	52
7	Busia	225,008	10	Busia	225,008	48,038	68.30	45%	17	Busia	225,008	41,785	44. 70	54%	49
8	Gulu	475,260	11	Gulu	298,527	42,361	76.20	55%	18	Gulu	298,527	53,684	69. 00	77%	48
			12	Amuru	176,733	48,146	61.80	36%	19	Amuru	135,723	47,958	57. 60	38%	45
									20	Nwoya	41,010	92,343	55. 20	8%	43

No.	2001		2007						2011						
	District	Population-2002 Census	No.	District	Population-2002 Census	Per capita FY09 grant (UGX)	Health League Table FY09	% Strategic Posts Filled	No.	District	Population-2002 Census	Per capita FY11 grant (UGX)	Health League Table FY11	% Strategic Posts Filled	Sanitation Rank
9	Hoima	343,618	13	Hoima	343,618	36,893	54. 90	64%	21	Hoima	343,618	25,555	48. 90	85%	43
10	Iganga	708,690	14	Iganga	540,999	41,492	55. 50	73%	22	Iganga	355,473	40,020	59. 90	69%	51
			15	Namutumba	167,691	41,272	60. 50	27%	23	Namutumba	167,691	41,284	59. 40	38%	43
									24	Luuka	185,526	31,225	41. 60	8%	36
11	Jinja	387,573	16	Jinja	387,573	47,434	77. 50	91%	25	Jinja	387,573	32,260	66. 70	92%	51
12	Kabale	458,318	17	Kabale	458,318	42,724	68. 80	55%	26	Kabale	458,318	46,188	59. 90	62%	48
13	Kabarole	356,914	18	Kabarole	356,914	34,653	62. 60	73%	27	Kabarole	356,914	30,921	73. 10	69%	51
14	Kaberamaido	131,650	19	Kaberamaido	131,650	51,736	51. 40	36%	28	Kaberamaido	131,650	52,039	65. 20	38%	41
15	Kalangala	34,766	20	Kalangala	34,766	112,006	62. 50	82%	29	Kalangala	34,766	91,497	51. 50	69%	53
16	Kampala	1,189,142	21	Kampala	1,189,142	31,728	82. 20		30	Kampala	1,189,142	2,123	77. 50		
17	Kamuli	516,066	22	Kamuli	361,399	50,534	56. 50	45%	31	Kamuli	361,399	36,292	60. 90	46%	76
			23	Kaliro	154,667	43,771	52. 60	27%	32	Kaliro	154,667	47,631	48. 00	38%	59
18	Kamwenge	454,996	24	Kamwenge	454,996	31,219	62. 70	73%	33	Buyende	191,266	26,685	54. 80	8%	45
									34	Kamwenge	263,730	32,636	61. 20	77%	58
19	Kanungu	204,732	25	Kanungu	204,732	47,550	65. 70	73%	35	Kanungu	204,732	49,743	58. 80	69%	57
20	Kapchorwa	190,391	26	Kapchorwa	141,439	66,043	59. 40	73%	36	Kapchorwa	74,268	87,117	63. 60	69%	36
			27	Bukwo	48,952	97,810	57. 10	36%	37	Bukwo	48,952	106,635	58. 90	46%	42
									38	Kween	67,171	46,731	17. 90	8%	20
21	Kasese	523,033	28	Kasese	523,033	43,299	58. 60	82%	39	Kasese	523,033	33,185	57. 20	85%	46

No.	2001		2007						2011						
	District	Population-2002 Census	No.	District	Population-2002 Census	Per capita FY09 grant (UGX)	Health League Table FY09	% Strategic Posts Filled	No.	District	Population-2002 Census	Per capita FY11 grant (UGX)	Health League Table FY11	% Strategic Posts Filled	Sanitation Rank
22	Katakwi	298,950	29	Katakwi	118,928	65,073	70. 80	91%	40	Katakwi	118,928	58,918	66. 40	85%	48
			30	Amuria	180,022	48,244	53. 60	64%	41	Amuria	180,022	46,661	47. 00	62%	65
23	Kayunga	294,613	31	Kayunga	294,613	41,712	64. 00	73%	42	Kayunga	294,613	41,454	58. 30	85%	25
24	Kibaale	405,882	32	Kibaale	405,882	37,353	49. 70	91%	43	Kibaale	405,882	37,686	50. 90	85%	46
25	Kiboga	229,472	33	Kiboga	229,472	45,130	66. 90	91%	44	Kiboga	108,897	54,529	51. 50	85%	59
									45	Kyankwanzi	120,575	36,989	46. 10	8%	49
26	Kisoro	220,312	34	Kisoro	220,312	50,206	64. 30	91%	46	Kisoro	220,312	51,686	63. 90	69%	40
27	Kitgum	282,375	35	Kitgum	282,375	57,792	67. 60	73%	47	Kitgum	167,030	69,568	57. 20	69%	61
									48	Lamwo	115,345	56,067	47. 70	8%	58
28	Kotido	377,102	36	Kotido	122,442	43,890	57. 20	64%	49	Kotido	122,442	52,539	49. 50	69%	23
			37	Kaabong	202,757	41,187	41. 20	55%	50	Kaabong	202,757	38,218	37. 00	54%	43
			38	Abim	51,903	112,884	72. 00	36%	51	Abim	51,903	92,365	66. 40	38%	50
29	Kumi	389,665	39	Kumi	267,232	54,780	71. 20	45%	52	Kumi	165,365	51,577	61. 80	46%	46
			40	Bukedea	122,433	50,787	65. 50	27%	53	Bukedea	122,433	48,688	56. 00	46%	49
									54	Ngora	101,867	53,462	50. 80	8%	38
30	Kyenjojo	377,171	41	Kyenjojo	377,171	35,286	58. 90	64%	55	Kyenjojo	266,246	32,744	53. 20	8%	46
									56	Kyegegwa	110,925	35,988	56. 20	8%	66
31	Lira	741,240	42	Lira	515,666	39,937	76. 90	64%	57	Lira	290,601	48,107	64. 20	77%	69
			43	Amolatar	96,189	60,256	69. 60	9%	58	Amolatar	96,189	62,315	51. 30	15%	55

No.	2001		2007						2011						
	District	Population-2002 Census	No.	District	Population-2002 Census	Per capita FY09 grant (UGX)	Health League Table FY09	% Strategic Posts Filled	No.	District	Population-2002 Census	Per capita FY11 grant (UGX)	Health League Table FY11	% Strategic Posts Filled	Sanitation Rank
			44	Dokolo	129,385	51,791	65.40	64%	59	Dokolo	129,385	54,419	58. 30	69%	48
									60	Otuke	62,018	57,693	45. 80	8%	56
									61	Alebtong	163,047	38,529	10. 00	8%	47
32	Luwero	478,595	45	Luwero	341,317	49,054	62.70	73%	62	Luwero	341,317	49,514	49. 60	77%	71
			46	Nakaseke	137,278	56,710	68.20	91%	63	Nakaseke	137,278	53,905	56. 20	85%	55
33	Masaka	770,662	47	Masaka	770,662	31,575	75.40	91%	64	Masaka	228,170	38,160	63. 00	85%	62
									65	Bukomansimbi	139,556	34,144	50. 20	8%	52
									66	Kalungu	160,684	40,415	53. 80	8%	69
									67	Lwengo	242,252	30,910	41. 80	8%	63
34	Masindi	459,490	48	Masindi	396,127	39,354	62.60	73%	68	Masindi	208,420	37,679	54. 40	54%	54
			49	Buliisa	63,363	65,433	48.80	45%	69	Buliisa	63,363	56,516	67. 00	62%	53
									70	Kiryandongo	187,707	34,953	42. 90	8%	38
35	Mayuge	324,674	50	Mayuge	324,674	35,534	51.40	45%	71	Mayuge	324,674	34,416	56. 10	62%	30
36	Mbale	718,240	51	Mbale	332,571	41,744	69.30	55%	72	Mbale	332,571	42,722	64. 40	62%	43
			52	Manafwa	262,566	50,094	63.70	55%	73	Manafwa	262,566	53,244	59. 10	85%	41
			53	Bududa	123,103	61,063	62.60	73%	74	Bududa	123,103	54,881	62. 70	69%	48
37	Mbarara	1,088,356	54	Mbarara	361,477	43,026	75.50	91%	75	Mbarara	361,477	38,478	70. 30	85%	72
			55	Ibanda	198,635	49,654	71.40	73%	76	Ibanda	198,635	43,341	54. 20	31%	65
			56	Isingiro	316,025	37,842	67.60	73%	77	Isingiro	316,025	32,580	60. 20	69%	46

No.	2001 District	2001 Population-2002 Census	2007 No.	2007 District	2007 Population-2002 Census	2007 Per capita FY09 grant (UGX)	2007 Health League Table FY09	2007 % Strategic Posts Filled	2011 No.	2011 District	2011 Population-2002 Census	2011 Per capita FY11 grant (UGX)	2011 Health League Table FY11	2011 % Strategic Posts Filled	2011 Sanitation Rank
			57	Kiruhuura	212,219	42,056	58.60	36%	78	Kiruhuura	212,219	40,783	48.90	31%	44
38	Moroto	189,940	58	Moroto	189,940	40,744	54.00	55%	79	Moroto	77,243	60,666	43.00	54%	20
									80	Napak	112,697	29,708	41.60	8%	25
39	Moyo	194,778	59	Moyo	194,778	45,642	51.60	55%	81	Moyo	194,778	46,032	40.70	62%	46
40	Mpigi	407,790	60	Mpigi	407,790	45,239	70.60	91%	82	Mpigi	187,771	46,370	62.10	92%	50
									83	Butambala	86,755	57,795	55.80	8%	58
									84	Gomba	133,264	39,703	41.20	8%	51
41	Mubende	689,530	61	Mubende	423,422	33,706	54.50	100%	85	Mubende	423,422	32,792	47.10	100%	45
			62	Mityana	266,108	42,438	77.30	45%	86	Mityana	266,108	40,314	58.80	62%	74
42	Mukono	795,393	63	Mukono	795,393	37,789		73%	87	Mukono	423,052	35,315	65.30	62%	57
									88	Buikwe	329,858	27,506	46.20	31%	41
									89	Buvuma	42,483	52,868	50.70	8%	35
43	Nakapiripirit	154,494	64	Nakapiripirit	154,494	50,830	45.10	64%	90	Nakapiripirit	90,922	61,866	49.10	62%	16
									91	Amudat	63,572	33,678	23.10	8%	11
44	Nakasongola	127,064	65	Nakasongola	127,064	59,293	65.80	73%	92	Nakasongola	127,064	58,915	57.00	77%	48
45	Nebbi	435,360	66	Nebbi	435,360	41,106	72.10	55%	93	Nebbi	266,312	46,168	62.60	54%	53
									94	Zombo	169,048	39,847	54.80	8%	40
46	Ntungamo	379,987	67	Ntungamo	379,987	42,294	59.30	73%	95	Ntungamo	379,987	37,888	59.40	54%	53
47	Pader	326,338	68	Pader	326,338	46,173	64.90	36%	96	Pader	142,320	68,817	53.80	38%	56
									97	Agago	184,018	38,474	54.20	8%	48
48	Pallisa	520,578	69	Pallisa	384,089	42,076	69.40	73%	98	Pallisa	255,870	49,760	61.50	77%	37

No.	2001		2007						2011						
	District	Population-2002 Census	No.	District	Population-2002 Census	Per capita FY09 grant (UGX)	Health League Table FY09	% Strategic Posts Filled	No.	District	Population-2002 Census	Per capita FY11 grant (UGX)	Health League Table FY11	% Strategic Posts Filled	Sanitation Rank
			70	Budaka	136,489	52,620	59.80	73%	99	Budaka	136,489	50,253	61. 30	69%	57
									100	Kibuku	128,219	34,106	51. 50	8%	42
49	Rakai	470,365	71	Rakai	404,326	48,508	71.30	91%	101	Rakai	404,326	47,454	64. 00	85%	64
			72	Lyantonde	66,039	74,517	79.10	9%	102	Lyantonde	66,039	54,619	67. 70	23%	68
50	Rukungiri	275,162	73	Rukungiri	275,162	50,777	73.80	73%	103	Rukungiri	275,162	41,408	65. 80	69%	63
51	Sembabule	180,045	74	Sembabule	180,045	53,764	57.80	73%	104	Sembabule	180,045	55,842	51. 50	46%	45
52	Sironko	283,092	75	Sironko	283,092	45,328	59.10	45%	105	Sironko	185,819	47,724	65. 10	46%	34
									106	Bulambuli	97,273	55,216	17. 80	8%	28
53	Soroti	369,789	76	Soroti	369,789	38,987	56.30	82%	107	Soroti	193,310	40,707	53. 70	77%	37
									108	Serere	176,479	39,432	30. 10	8%	26
54	Tororo	536,888	77	Tororo	379,399	42,667	77.20	64%	109	Tororo	379,399	44,122	60. 90	69%	51
			78	Butaleja	157,489	53,331	73.00	36%	110	Butaleja	157,489	52,270	68. 00	38%	46
55	Wakiso	907,988	79	Wakiso	907,988	29,425	65.70	45%	111	Wakiso	907,988	25,688	53. 00	92%	66
56	Yumbe	251,784	80	Yumbe	251,784	44,780	49.30	45%	112	Yumbe	251,784	48,808	47. 90	46%	56
		24,227,297			**24,227,297**	**42,558**	**65.9**	**43%**			**24,227,297**	**40,541**	**58. 40**	**47%**	**30**

Sources: Statoids. com for district boundaries, MoLG various Policy Statements for posts and grants, Annual Health Sector Performance Reports for FY09 and FY11, Water and Environment Sector Performance Report 2011, and Background to the budget on population. All grants are included in per capita grant calculations. League tables: minimum 1, maximum 100.

Conditional Grants. Conditional grants have grown in share (from 62 to 89 percent of all grants) and in number (from 16 in FY02 to 38 in FY11), and have become more restrictive over time. Each of the 38 conditional grants has its own allocation parameter, as shown by examples in **Table 10** taken from LGFC (2012).

Table 10. Allocation Parameters of Selected Conditional Grants

Grant	Present allocation parameters
Primary Education (UPE)	• Enrolment
Urban Water O&M	• Tariff subsidy • System specific allocation • Connection subsidy allocation
Primary Health Care (PHC) Non-Wage	• Population • Infant mortality
Roads Maintenance (URF)	• District roads: population and area • Community access roads: population
National Agricultural Advisory Services (NAADS)	• Rural Land Area • Rural Population • Poverty Head Count
Rural Water and Sanitation	• Basic minimum allocation for overheads/operations • Per capita cost for delivery of water and sanitation services • Population at sub-county • Safe water coverage at sub-county
Rural Feeder Roads	• Land area • Population

Source: LGFC (2012)

The initial LGDP allocation (for FY04) was determined as follows:

- LGDP funds would be divided between rural and urban Local Governments on a per capita basis: US$2 per capita for urban authorities (including town councils) and US$1 per capita for rural authorities, in real terms.
- The amounts allocated to rural areas would then be distributed among districts and sub-counties based on population (85 percent) and land area (15 percent), and to parishes based on population alone (100 percent). Within each district, funds would be further allocated to districts (35 percent) and sub-counties (65 percent). Sub-counties would then allocate 30 percent to parishes.
- The amounts allocated to urban areas would then be distributed based on population alone (100 percent). Within each City or Municipal Council, funds would be further allocated to city or municipal councils (50 percent) and division councils (50 percent). Division councils would then allocate 30 percent to parishes.
- As part of the performance evaluation system, incentives and penalties would be applied wherein those Local Governments that perform adequately would be rewarded with access to 20 percent additional funds and those who do not perform well would have their allocation reduced by 20 percent.

Access to LGDP grants was open to all Ugandan Local Governments that would meet minimum conditions and were willing to co-fund 10 percent of the projects supported by LGDP grants through their own resources.

Decentralization Timeline

Building political support for decentralization
1986-1992

- **1986**: NRM gain power in Uganda
- Local Resistance Councils (RCs) are very influential in the NRMs rise to power.
- The value of local mobilization and organization is strongly appreciated.
- RCs become de facto Local Governments.
- Decentralization as a politically driven process is established
- Formal adoption of decentralization policy in 1992

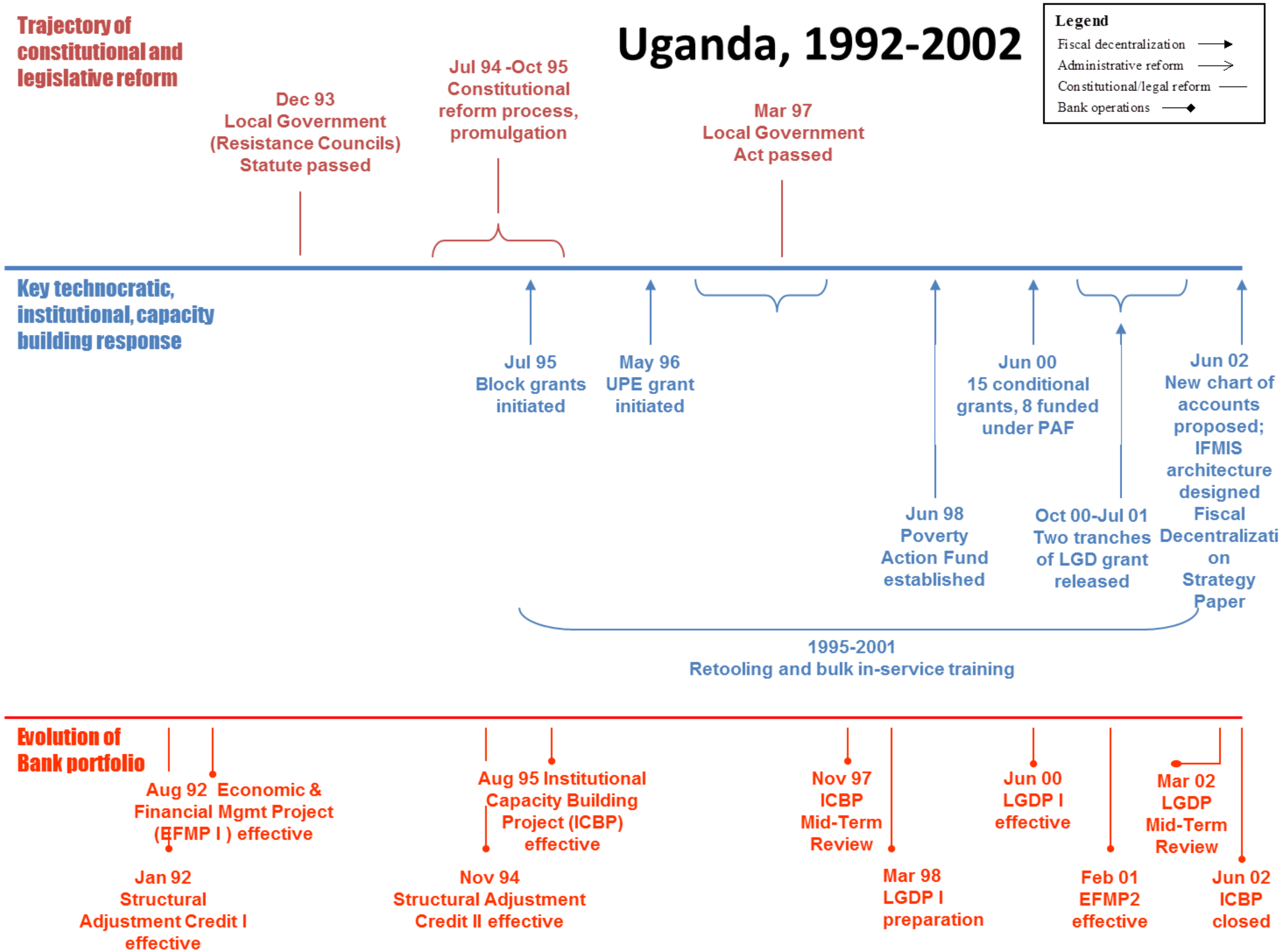
Establishing the Local Governance System
1993-2004

- **1993-97:** Staff posted from line ministries and introduction of district managed votes and grants
- **1994**: Development Partners (Danida) start supporting decentralization. Others follow. Focus is on community based grants and technical support to the Government. Community based development (away from centre) is a major theme.
- **1997**: **LG Act** passed . It assigns political, administrative, fiscal and service delivery powers to LGs in line with the Constitution
- **2000**: **LGDP1** starts,
- **2002**: The **Fiscal Decentralization Strategy Paper** is approved. It aims to enhance the discretionary local government funding and local revenue in support of their mandates as autonomous institutions, whilst at the same time improving planning, reporting and accountability processes.
- **2003: Local Government Finance Commission** established by Act of Parliament to advise on Fiscal Decentralization issues and LGDP II starts

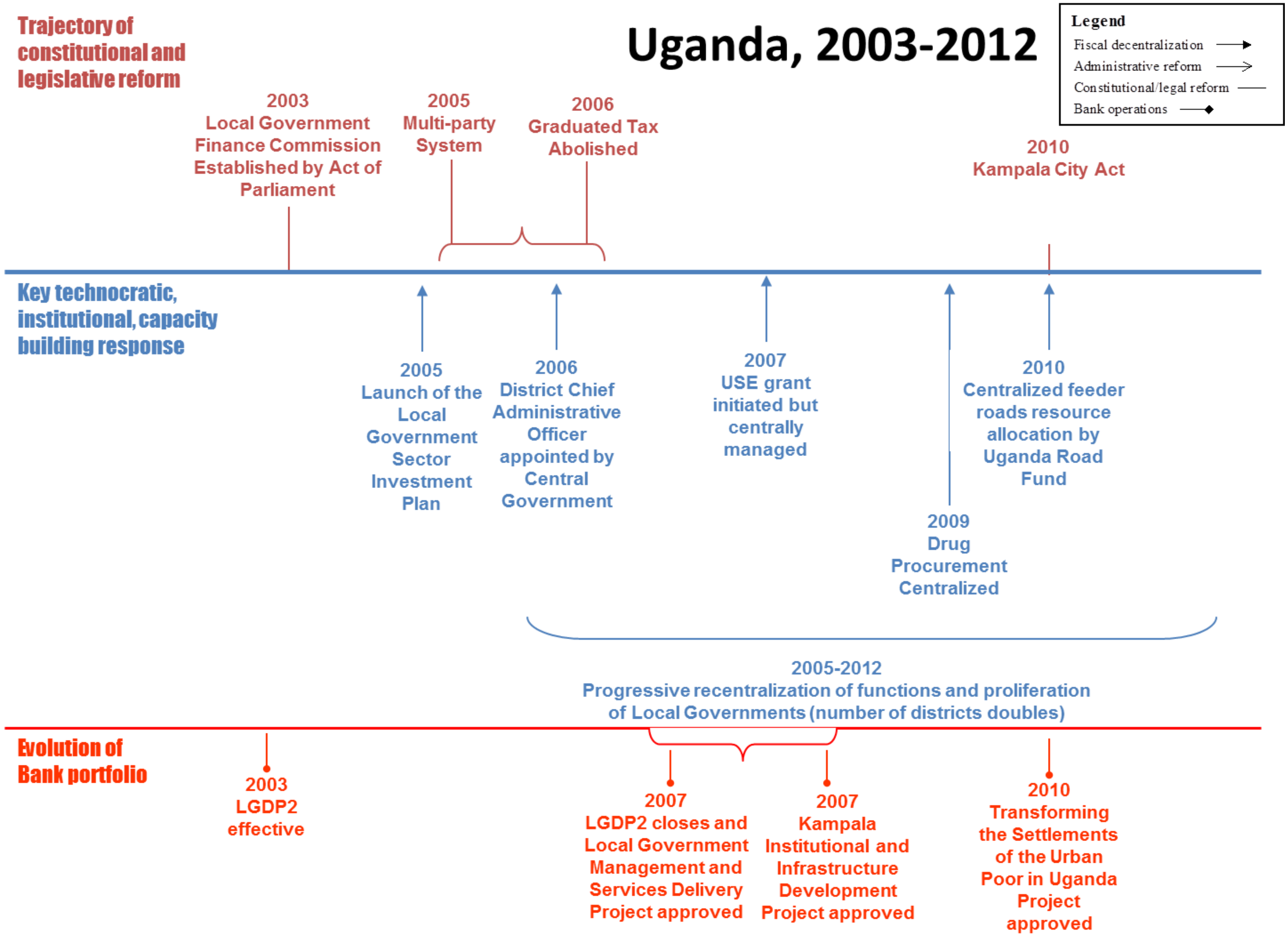
Recentralization and Proliferation of LGs
2005-2012

- **2005: Adoption of a multi-party system** with elections scheduled for 2006
- **2005**: launch of the **Local Government Sector Investment Plan (LoGSIP)** . Donors establish a common basket fund to support LoGSIP. Other sectors (e.g Education) establish vertical planning tools, reducing LG discretionary expenditures. It will be supported by DPs till 2010.
- **2005**: **District Chief Administrative Officers will be appointed by central government** instead of district councils with the aim of removing them from "pressure exerted by local politicians". IEG (2008) found that this fact increased independence and did not necessarily derail devolution.
- **2005: Suspension of Graduation Tax,** the predominant source of local revenue, in the run up to 2006 national and local elections. G Tax has never been adequately replaced. This political strategy was proposed by opposition and government parties as part of their manifestos.
- **2006-2011**: **the number of districts almost doubles** (from 56 in 2000 to 111 in 2011) - see Figure 2.
- **2007**: introduction of Universal Secondary Education (USE) in Uganda as a centrally managed service
- **2009**: drug procurement is centralized to "fight corruption"
- **2010**: centralization of Feeder Roads resource allocation by the Uganda Road Fund.
- **2010**: Parliament approves The Kampala City Bill (which places Kampala under the administrative authority of the Central Government who appoints its executive director)

Source: PPAR Team



Source: PPAR Team



Source: PPAR Team

Annex C. Evolution of Bank Portfolio

The First Urban Project (approved 1991, closed 2000) supported the government's efforts to decentralize the responsibility for the planning, design and management of urban services to local authorities while assisting with reconstruction of the country after a period of political instability, social strife and physical destruction. The project objectives were to: (a) improve living conditions and alleviate poverty in Kampala by restoring key infrastructure services; (b) support the development of decentralized local urban management by strengthening the revenue base, financial management and technical capacities of the Kampala City Council (KCC) and by improving the ability of central government to assist local authorities to increase their revenue base and strengthen financial management; (c) strengthen the country's capacity to manage the process of urban land development; and (d) promote sound cost recovery policies and practices. The project included support for: (a) the rehabilitation of urban markets, streets and drains, refuse collection and disposal; (b) the servicing of land for residential development; (c) the preparation of up-to-date mapping and a strategic urban development plan for Kampala; and (d) technical assistance and training for KCC, the Ministry of Local Housing and the Physical Planning Department staff.

The Small Towns Water and Sanitation Project (approved 1994, closed 2003) supported the government's economic recovery program by extending the rehabilitation and upgrading of water supply and sanitation services to towns that had not been covered before. It aimed at: (a) improving health conditions through better water supply, excreta disposal, waste water management, and public hygiene; (b) alleviating poverty and improving the lot of women; and (c) reducing environmental degradation through better waste management. The project provided 12 small towns and Jinja with improved and sustainable water supply and sanitation through: (a) the rehabilitation and/or expansion of water supply and sanitation facilities; (b) hygiene education related to water supply and sanitation; (c) community participation in planning, implementation, operation, and maintenance of water supply and sanitation facilities; and (d) institutional strengthening, technical assistance and training for the organizations in the sector.

The Institutional Capacity Building Project (approved 1995, closed 2002) aimed to establish local institutional and human capacity to develop and implement public policy and support the growth of the private sector through: (a) support for the continuation of the Civil Service Reform; (b) assistance to the Government of Uganda in its decentralization program; and (c) strengthening the legal and financial accountability framework and institutions. The project consisted of five components: (i) central government capacity building; (ii) Local Government capacity building; (iii) legal sector reform; (iv) accountancy profession; and (v) training funds.

The District Health Project (approved 1995, closed 2002) aimed at pilot-testing and demonstrating the feasibility of delivering an essential health services package to district populations, within a prudent financial policy framework for the sector in order to improve the efficiency and equity in the provision of health services. The project was designed to support the Government's strategy of decentralizing health services. It planned to increase the efficiency of the existing health infrastructure and institutions through consolidation and improved management with increased local accountability, while simultaneously supporting cost recovery and budgetary policies that will enable the health care system to move toward long term sustainability. It supported the Government's efforts to reorder priorities within the existing health care system through efficiency improvements and by reallocating financial and human resources toward ensuring the provision of a package of essential health services for all Uganda's citizens. Accordingly, the project included activities to: 1) pilot and test new sector policies and strategies which will facilitate the implementation of essential health services; 2) strengthen management and planning capacity at district levels so that they are prepared to provide essential health services; and 3) restructure the Ministry of Health so as to build its capacity to provide health policy leadership and to support the Government's decentralization policy.

The Nakivubo Channel Rehabilitation Project (approved 1999, closed 2004) was aimed at alleviating the frequent flood incidence on the road network, which affected traffic flows, with an adverse impact on the economic activity and living conditions in Kampala. Institutionally, the Project tried to enhance the Kampala City Council (KCC) management capacity, helping establish the infrastructure investment policies, and ultimately, support KCC's reform program. The project components included civil works regarding the rehabilitation of the main channel, construction of auxiliary drains, and, the rehabilitation of priority drainage. Consulting services for construction supervision were to be financed by the project, as well as the required program and policy studies, namely the Kampala Drainage Master Plan Study and the Kampala Urban Transportation Improvement Program Study. Institutional strengthening was planned for both the KCC reform program under the strategic framework for reform, and the revenue enhancement program. To facilitate outsourcing of basic delivery functions, seed funds were made available and training and implementation support were further provided.

The Second Economic and Financial Management Project (approved 1999, closed 2006) was part of the assistance strategy for supporting improvements in the public expenditure management process in Uganda, and the project was aimed at improving the efficiency of Government planning/budgeting, financial management, and monitoring/evaluation processes. The components were expected to: 1) support strengthening of central, and Local Government planning, and budgeting processes, through improved transparency, and accountability of budget, and public expenditure practices. Fiscal decentralization was to be expanded, and effective linkages between national, and Local Government planning were to be strengthened, together with recurrent, and development budget integration; 2) improve financial and accounting practices, through human resources capacity building, to improve financial management systems, and information, and enhance external auditing functions; 3) support capacity building to monitor the performance, and delivery service of public expenditure on living standards among various groups. This included improved capacity of the Uganda Bureau of Statistics, and implementation of the National Service Delivery Survey; 4) test the effectiveness of distance learning, through the construction of a learning center, equipment supply, and operational technical assistance.

The Local Government Development Program (approved 1999, closed 2004) initiated a long-term effort, to assist Uganda in the decentralization of basic public services, and in the implementation of Local Governments, and tested alternative services delivery mechanisms, through the private sector, beneficiary communities, or stakeholders. Given the cross-sectoral nature of this project, the strategic framework was widely supported, namely, through the promotion of labor-intensive macroeconomic growth, and increased private sector investments. The components did: 1) provide technical assistance to the Ministry of Local Government (MoLG), and the Local Government Finance Commission Secretariat, for capacity building and policy development, as both institutions strive to become operational. Under the decentralization policy, MoLG was expected to mentor Local Governments, in line with the Constitution, and the Local Governments Act of 1997. Computerized databases provided the required linkages for adequate information communications; 2) finance basic services delivery investments, and capacity building, through grants from the Central Government to the Local Governments; 3) support and test, alternative basic services delivery for the Kampala City Council, implemented through reorganization, private financing, and improved management practices; and, 4) support program management, monitoring/ evaluation, and, future program formulation.

The Kampala Institutional and Infrastructure Development Project (approved 2007, it is scheduled to close by end December 2012) aims to improve institutional efficiency of the Kampala City Council (KCC) through implementation of the Strategic Framework for Reform (SFR). The project includes the following components: Component 1 -- support to KCC and its stakeholders to refine and expand the SFR into a comprehensive approach to municipal development, consonant with Kampala's central role in the nation's economic and political life. Component 2 -- provide city wide infrastructure and services improvements. Component 3 -- support to KCC on project implementation and the establishment and implementation of a comprehensive monitoring and evaluation system.

The Local Government Management and Services Delivery Project (approved 2007, it is scheduled to close by end December 2012) aims to strengthen the ability of the Ministries, Departments and Agencies (MDAs) and Local Governments (LGs) to plan and manage resources in collaboration with communities for service delivery. The project had three components: Component 1 - Support to the Public Financial Management (PFM) system reform program - intended to strengthen PFM at central and Local Government levels and to ensure efficient, effective, transparent and accountable use of public resources; Component 2 - Support to the Local Government Sector Investment plans (LoGSIP) - support Local Governments infrastructure development through the (a) GoU local development grant (LDG), (b) professionalization of Local Government staff, and (c) support to Local Governments in Northern Uganda which were weak and emerging from situation of civil war.

The Transforming the Settlements of the Urban Poor in Uganda - A Secondary Cities Support Programme (TSUPU) (approved 2010, it is scheduled to close by end December 2012) aims to strengthen the ability of Local Government (LG's) to plan and manage resources in collaboration with communities for service delivery. Negative measures include: air pollution, noise pollution, waste management, water pollution, soil erosion, ecology, drainage, and natural resources. Mitigation measures include: a) traffic emissions should be monitored and legally permitted levels should not be exceeded; b) during construction, un-paved roads should be water sprayed and doused to reduce dust levels; c) employers should provide protective equipment e. g. dust masks and construct well-ventilated workshops as necessary; d) movement of vehicles and operation of construction machinery should be confined to daytime; and e) construction should be monitored by local and district public health officials notably in the siting of these items.

Annex D. List of Persons Interviewed

Mr. Roland White, Senior Institutional Development Specialist

Mr. Gaiv Tata, former TTL ICBP

Mr. Moustapha Ndiaye, Country Manager for Uganda

Eng. Paul Kasule-Mukasa, Project Coordinator, LGMSD, MoLG

Mr. David Kiggundu, Programme Coordinator, Kampala Institutional & Infrastructure Development Project

Mr. Andrew Musoke, Asst. Commissioner, Policy & Planning Department, (MoLG)

Mr. Martin Onyach-Olaa, ICR Author and former MoLG staff

Mr. Swizin Kinga Mugyema, Commissioner, Local Council Devt, MoLG

Mr. Patrick Mutabwire, Ag. Permanent Secretary, Ministry of Local Govt

Mr. Abbey Iga, Commissioner, Urban Inspection, MoLG

Mr. Richard Sewakiryanga, Executive Secretary, Uganda National NGO-Forum

Mr. Pius Bigirimana, Permanent Secretary, Office of the Prime Minister

Mr. Paul Okot-Okello, Commissioner, District Admin, MoLG

Mr. Lawrence Banyoya, Commission Secretary, LGFC

Eng. Gumusiriza Birantana, Chairperson, Uganda National Association of Building and Civil Engineering Contractors

Mr. Samuel Amule, Commissioner, District Inspection, MoLG

Mr. David Kigenyi Naluwayiro, CAO, Wakiso District

Ms. Sylvia Keera, M&E, MoLG

Mr. Byamugisha Albert, Commissioner, Monitoring & Evaluation, Prime Minister Office

Ms Hope Alice Nakyanzi, CAO Jinja District

Mr. Keith Muhakanizi, DST, Ministry of Finance, Planning & Economic Development

Mr. Swizin Kinga Mugyema, Commissioner, Local Council Devt, MoLG

Mr. John Muwanga, Auditor General

Annex E. Borrower Comments

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In any correspondence on
this subject please quote No. ALD/141/205/54

THE REPUBLIC OF UGANDA

Ministry of Finance, Planning &
Economic Development
Plot 2-12, Apollo Kaggwa Road
P.O. Box 8147
Kampala
Uganda

30 April 2014

The Country Manager, Uganda,
The World Bank,
Plot 1 Lumumba Avenue,
KAMPALA

COMMENTS ON THE DRAFT PROJECT PERFORMANCE ASSESSSMENT REPORT FOR THE SECOND LOCAL GOVERNMENT DEVELOPMENT PROJECT

Reference, is made to the report of the Independent Evaluation Group on the Second Local Government Development Programme (LGDP2). We appreciate that the report is comprehensive and examines all aspects of the (LGDP 2. We are also in receipt of the letter dated April 14, 2014 from the Ministry of Local Government on the above subject, copied to yourselves. Copy attached for reference.

We concur with the observations made by Ministry of Local Government regarding political overtones in the report. We request that the report focuses on implementation issues and leave out political decisions.

The purpose of this letter is, therefore, to request you to consider the comments raised by the Ministry of Local Government and inform the Independent Evaluation Group to have them reflected in final the report.

Keith Muhakanizi
PERMANENT SECRETARY/SECRETARY TO THE TREASURY

c.c The Permanent Secretary, Ministry of Local Government, Kampala

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

COMMISSIONER LOCAL GOVT INSPECT 258101
COORDINATOR-PDM 342864
ASSISTANT COMMISSIONER PLANNING 342854
E-mail: ps@molg.go.ug

IN CASE OF ANY CORRESPONDENCE ON THIS SUBJECT PLEASE QUOTE REF **ADM/332/01**

SCANNED
Scan date: 04/16/14
PO 77477

15th April 2014

The Permanent Secretary/Secretary to Treasury
Ministry of Finance, Planning and Economic Development
KAMPALA

COMMENTS ON THE DRAFT PROJECT PERFORMANCE ASSESSMENT REPORT FOR THE SECOND LOCAL GOVERNMENT DEVELOPMENT PROJECT

We read the report of the Independent Evaluation Group on the Second Local Government Development Programme (LGDP2). The report is comprehensive and examines all aspects of the LGDP 2. Nonetheless, we have a few but important comments to make as the Executing Agency.

1) The Report runs with a lot of political overtones on a wide number of issues but particularly the creation of new districts (political patronage) and the appointment of Chief Administrative Officers. The resulting "political enthusiasm" runs across the entire report and gives it a negative and stirring tone and in some cases leads to a statement of error. In its current form, the report is an analysis of the Decentralisation Policy in Uganda, well beyond the realms of a straightforward national programme. For example, very many district councillors and ordinary citizens agitated for the creation of the districts. It was not always H.E The President of Uganda pushing for creation of the Districts. This information can be cross checked from the Ministry or through media and other reports.

2) To use the National Development Plan (NDP) as base instrument for LGDP2 makes the analysis skewed. LDGP2 was designed and implemented under the Third Poverty Eradication Action Plan (PEAP3). It is weak to rate commitment to the Decentralisation through a statistical tallying of how many times Decentralisation is mentioned. The authors need context in terms of the Recommendations of the First Annual Review of Decentralisation (JARD 2004) which applauded the Decentralisation Policy but quickly observed that the policy was not causing commensurate incomes and growth at individual and household levels. This gave birth to the impetus of the Local Economic Development (LED) Policy. LED is now a key element in sub-national development with National Development Plan (NDP).

3) In a related comparison, the report should have recognized the important steps made by Government in fostering the Decentralisation policy, namely through; the Decentralisation Policy Strategic Framework and the Local Government Sector Strategic Plan (LGSSP) first formulated in 2006 and revised in 2012/13.

5) The rating of Government performance as unsatisfactory should be revisited, with the right context.

In conclusion, the report of the Independent Evaluation Group for LGDP2 raises a lot of pertinent issues that Government is set to change or adopt. Nonetheless, it casts a lot of negative shadows on a programme that was highly rated by Government and the Local Governments, themselves. Notwithstanding the policy challenges, the implementation of LGDP2 stayed on course and the programme maintained good rigour. LGDP2 continues to be a flagship programme in Uganda. Indeed, many countries have benchmarked the model. We hope these comments will be considered for a more balanced report.

The purpose of this letter is, therefore, to request you to convey our comments to the Independent Evaluation Group.

Patrick K. Mutabwire
For: PERMANENT SECRETARY

Cc: Hon. Minister of Local Government, **Kampala**

Cc: Hon. Minister of State for Local Government, **Kampala**

Cc: Eng. Paul Kasule-Mukasa, Coordinator/ Local Government Development, Ministry of Local Government, **Kampala**

Cc: Mr. Ahmadou Mustapha Ndiaye, Country Manager, World Bank, **Kampala**

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