

## Reinvigorating the pursuit of more effective aid in Uganda

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**U**ganda was a pioneer in the 1990s in developing many of the principles that underlie the current aid effectiveness agenda. However, the country's aid management processes became stale in the 2000s. The new National Development Plan calls for a Partnership Policy to establish clear roles and responsibilities for government and development partners in delivering aid expenditures. The development of a Partnership Policy is an opportunity for a step change in the management of aid in Uganda. In the context of reducing aid dependency, and relative increases in project aid, the authors of this Background Note draw on extensive experience of working in Uganda and elsewhere to set out some possible steps to improve aid effectiveness in Uganda, and ensure that the partnership between government and donors remains relevant.

### Introduction

Uganda has a strong track record of leading its own development agenda since the 1990s. Uganda was a pioneer in developing the current aid effectiveness agenda, and the Paris Declaration and the Accra Agenda for Action both owe a great deal to the Uganda Partnership Principles of 2000 and 2003. The processes for managing development partner (DP) projects established in the early 1990s and their presentation in the national development budget using a development management system were groundbreaking. Later that decade the structures for alignment and harmonisation of aid were established through the introduction of the country's Poverty Eradication

Action Plan (PEAP), the formation of Sector Working Groups and Sector Wide Approaches (SWAs). Uganda was also the first recipient of Heavily Indebted Poor Countries (HIPC) debt relief, which it channelled alongside budget support for poverty reducing expenditures through a mechanism known as the Poverty Action Fund. This was accompanied by an explicit preference of the Government of Uganda for budget support modalities. The resulting shift in aid modalities that followed was important in aligning aid towards the priorities of the government.

These innovations resulted in great improvements in aid effectiveness and facilitated a significant shift of resources to the government's policy priorities and the subsequent expansion of public service delivery.

However, in the mid 2000s, aid management in Uganda became less effective in several areas. The complete shift to budget support expected by many in the Government of Uganda did not occur. Meanwhile, partly as a result of this expectation, the mechanisms for the management of project aid became lax. Efforts to integrate project aid into fixed sector ceilings contributed to increases in off budget aid where DP and Government of Uganda strategies diverged and there was little effort by either to develop mechanisms to enable project aid to become better aligned with government systems.

Governance concerns of DPs – particularly in relation to corruption, human rights and a lack of political competition – became more prominent during the 2000s. However, the mechanisms for dialogue, focused on the Ministry of Finance, Planning and Economic Development, were not well structured to cater for this change in emphasis. More fundamentally, several DPs, particularly bilateral agencies, faced a reputational risk in providing General Budget Support (GBS) to Uganda whilst harbouring such

concerns. In the lead up to the 2006 presidential and parliamentary elections there were cuts in budget support. Since then, project aid volumes have increased, whilst budget support has not.

Various efforts have been made in recent years by DPs and the Government of Uganda, including the Joint Assistance Strategy, the Division of Labour Exercise, the development of the Joint Budget Support Framework, and the drafting of the Partnership Chapter in the National Development Plan (NDP). The focal point for DP dialogue with the government has been shifted to the Office of the Prime Minister. These efforts have borne some fruit in terms of more focused dialogue on budget support and sector issues, and some rationalisation of DP engagement across sectors. Furthermore, DPs have shown an ability to respond to emerging Government of Uganda policy priorities, such as universal secondary education and the reconstruction of Northern Uganda.

Alongside recent incremental improvements in effectiveness there has been growing concern amongst Ugandans and DPs about the quality of public service delivery. Partly in response to these concerns, the government has introduced an ambitious results agenda through output-oriented budgeting and government performance reporting. DPs have made some efforts to link their dialogue and results monitoring to these reforms via the Joint Assistance Framework for budget support, which itself is focused on service delivery.

Nevertheless, if aid is to be made more effective in Uganda, it is important to acknowledge two broad realities:

- General Budget Support flows are unlikely to increase significantly in future, given the continued governance concerns of DPs, whilst it is likely that aid earmarked to sectors and specific programmes may well increase. Furthermore, it is unlikely that project aid flows will decline any time soon.
- With continued economic growth, and the prospect of oil revenues, Uganda will become less aid dependent over time.

To date, efforts to improve aid effectiveness in Uganda have not taken these two realities into account. Nevertheless, it remains in the Government of Uganda's interest to receive predictable, flexible, effective external assistance, which it can use to support the implementation of its policies. For DPs to deliver this, the partnership and mechanisms for delivering aid should acknowledge and address the reputational risks to DPs associated with their governance concerns.

Four main strategies would deliver more effective aid to Uganda.

- Firstly, DPs should focus on supporting the implementation of the government's policies where they agree with them, rather than disputing them when they do not.
- Secondly, clear roles for different aid modalities and processes for their management and coordination should be established by the government and DPs in Uganda to maximise the complementarity of aid instruments.
- Thirdly, DPs should make a shift away from project support towards the use of Sector Budget Support (SBS), which does not carry the same reputational risk as GBS, as it is a more effective means to support service delivery.
- Fourthly, the systems for managing project aid should be improved to ensure that they are aligned with the government's budgeting, reporting and accountability cycle, and that spending agencies have flexibility to manage project inputs effectively alongside government resources.

These four strategies are now discussed in turn.

### **1. Development partners should support the implementation of the government's policies where they agree with them, rather than dispute them when they don't.**

At the macro level, in the context of reduced aid dependency, the leadership of the development agenda by the Government of Uganda is only likely to become stronger. If the government is to find the development partnership useful, DPs should respond to the government's policy agenda and policy priorities. The Ugandan NDP sets out an agenda that is more oriented towards growth than previous PEAPs and there is a shift in policy priorities towards infrastructure, science and technology. Where DPs feel they can support these new policy priorities, additional aid resources need to be steered towards them.

In supporting established policy priorities in health and education, dialogue has often continued to focus on influencing high level policy agendas in sectors whilst the real issues relating to effective implementation of those policies have failed to be addressed. DPs can achieve much more by supporting the effective implementation of the government's policy agenda when they agree with it, than they can by disputing this agenda when they don't. The focus needs to shift towards strengthening the systems for policy implementation and service delivery and, as service delivery is decentralised in many sectors, this also requires a greater focus on local government systems within and across sectors and the development of new skill sets in DPs and in gov-

ernments (Hedger et al., forthcoming; Williamson and Dom, 2010).

The Government of Uganda is in the process of establishing sophisticated systems for results-oriented budgeting, monitoring and reporting. Already, this is beginning to help improve the transparency and accountability of government resource use, and DP engagement should reinforce this agenda rather than distract from it. Therefore, DPs should use these decision-making and reporting mechanisms as the basis for dialogue, rather than creating parallel mechanisms. Initiatives such as the Joint Assistance Framework (JAF), for example, should not therefore dominate the partnership and policy dialogue at the expense of existing government accountability and reporting systems that focus on the key issues for improving sector performance and service delivery. The JAF does, to its credit, attempt to focus on improving service delivery. DP engagement should reinforce government systems as they are, ultimately, more likely to generate stronger internal government incentives and ownership and, subsequently, improved and sustainable development results.

Furthermore, conditionality associated with provision of aid will have a diminishing impact on government incentives. Where it is employed it should be fully in line with the government's results agenda and should be applied in a way that will not effect in-year funding for service delivery. The partnership should concentrate on working out ways to improve the internal incentives within government (rather than impose external incentives) that are likely to improve the delivery of services and therefore development results (Williamson and Dom, 2010).

Although efforts are being made, DPs will continue to need an avenue for dialogue on their governance concerns with the Government of Uganda. However, these need to be kept separate from those dealing with the provision of aid to government in areas where there is policy agreement.

In 2010, the Government of Uganda and DPs are collaborating on a new partnership policy. This policy needs to reflect the changing environment for the provision of aid and elaborate the principles of how DPs can reinforce government policy implementation, including its results agenda, and focus on service delivery systems and processes. More importantly, DPs in Uganda need to change their behaviour, focus and skills sets if they are to deliver a more relevant partnership.

## **2. Establish clear roles and processes for managing and coordinating different aid modalities**

It is unlikely that GBS flows will increase significantly over time, as many bilateral DPs are finding it increas-

ingly difficult to justify the use of the modality to their parliaments. However, there is increasing interest in the use of SBS as a mechanism of providing aid through government systems. Recent research led by ODI (Williamson and Dom, 2010), concludes that SBS is a potentially complementary and effective modality for supporting service delivery to GBS and project support. Furthermore, notionally earmarked SBS, of the kind already provided in Uganda, is the most effective type of SBS. Another key finding of this study is that the potential complementary roles of different aid modalities are rarely maximised. This evidence is backed up by further research carried out by ODI (Handley, 2010) on the effect of the predictability of different aid modalities on the reliability of funding for service delivery.

The implications are twofold – firstly, there is a need for the new aid policy to move beyond stating a preference for aid modalities and be more explicit about the roles of different aid modalities and the systems for managing them; secondly, DPs should be encouraged to shift from the provision of project aid to SBS in support of service delivery (see the fourth principle in this section on improving the systems for managing aid).

Different aid instruments need to be designed and implemented so that they complement each other as well as the government inputs at the national, sector and implementation levels. A clear policy on the role of aid modalities within and across sectors could facilitate this. We suggest the following roles for different modalities:

- GBS as the instrument for supporting cross-sectoral government reforms, and providing funds to support service delivery inputs
- SBS could be the vehicle, alongside GBS and domestic revenues, for funding service delivery inputs in specific sectors
- On-budget project aid could be steered towards the provision of service delivery infrastructure, establishment of capacity-building systems; (planned) technical assistance; and pilot initiatives
- Off-budget project aid could be steered towards (unplanned) technical assistance, humanitarian activities, and activities to be carried out by non-government actors, not in direct partnership with the government (this may include support to address specific governance issues).

Such an explicit statement of roles would help steer the design of different aid instruments; however, explicit processes for their design and management will also need to be elaborated. This would help provide greater coherence in the provision of aid nationally and at the sector level, and facilitate the work

of the existing coordination structures to maximise their complementarity. A calendar for managing aid instruments in line with the government budgeting and reporting cycle would be another practical step.

### 3. Shift from project support to the use of SBS in support of service delivery

In the context of a clearer set of principles for the role of aid instruments and the need to support service delivery and the government's own results agenda, DPs should shift away from the provision of project aid in service delivery sectors and towards the provision of SBS. This, combined with GBS, is the most effective way of supporting service delivery in sectors such as health, education, rural roads, water and sanitation. For its effectiveness to be maximised:

- SBS should continue to be provided in a non-traceable form in Uganda – i.e. not separately identifiable in the budget (Williamson and Dom, 2010)
- the design and implementation of SBS programmes, including dialogue, technical assistance and capacity development needs to focus on the downstream systems and incentives for service delivery especially in local government.

On the government side there needs to be a clearer framework for managing SBS. DPs need assurances that SBS will contribute to increased funding for services, as this will help them demonstrate that aid makes a difference to their constituents. For this to be achieved, the government and DPs should agree areas where additional budgetary funding is needed to improve service delivery. When DPs agree to provide SBS, the government needs to put in place a framework that provides assurance to DPs that sector budgets are increasing in line with these agreed budget priorities and commensurate with the volumes of SBS provided. Such a framework would play the role that the Poverty Action Fund played in the 1990s, when it enabled a significant scale up of the use of SBS. The continued government commitment to protect budget releases to key service delivery budget lines under the PAF should not be overlooked by DPs. In fact, the Government of Uganda has proven able to protect these budget lines from shortfalls in aid disbursements, whilst it has found it far more difficult to do so for services funded from external project support (Handley, 2010).

Finally, it is important to note that SBS provided in the way described here is likely to be far less vulnerable to cuts than GBS as a result of crosscutting governance concerns. Why? Because its provision to a specific sector can be more easily linked to service delivery, which benefits the poor directly.

### 4. Improve the systems for the management of project aid

The key to the delivery of aid effectiveness in Uganda is for both government and DPs to focus on improving the management of project aid at sector level and integrating it into the government budget cycle. This is crucial as there is unlikely to be a further shift to GBS, and on-budget project aid still accounts for approximately one quarter of the budget. In 2009/10, project aid represented 40% of budgeted expenditures in the priority sectors of health, education, roads, agriculture and water (Ministry of Finance Planning and Economic Development, 2010), representing over two thirds of development expenditures in those sectors. There are also significant off-budget project aid flows in these sectors. Even in the context of a shift towards SBS, project aid is likely to remain the most significant modality for providing aid to Uganda.

Equally, the key to improving the management of project aid is its alignment with the government's own budgeting, accounting, and reporting cycle. A 2008 study of putting aid on budget (Mokoro, 2008) highlights project aid as integrated very poorly into the government's own accountability cycle. Table 1 shows how

**Table 1: Capturing project aid in the government budgeting, accounting, reporting and audit cycle**

| Term          | Approach  |
|---------------|---|
| On BFP        | Medium term projections and annual commitments for project aid spending integrated into spending agencies' budget framework papers.   |
| On budget     | All project aid to government institutions, and its intended outputs, is presented in Ministerial Policy Statements and the Annual Budget Estimates.  |
| On treasury   | Project aid disbursed by DPs into the consolidated fund in bank of Uganda and managed through government's systems.   |
| On accounting | Project aid recorded and accounted for in government's accounting system (the Integrated Financial Management System for those votes on the system), in line with government's chart of accounts. |
| On report     | Reporting on project expenditures and results integrated into budget performance reports and government performance reports   |
| On audit      | DP projects to government audited by the auditor general annually for the GoU financial year in question, and these audits form part of the annual report of the Auditor General.                 |
| On parliament | All project aid to government included in Parliaments expenditure appropriations. Audit reports on project aid discussed by the parliamentary accounts committee.                                 |

Source: Adapted from Mokoro Ltd (2008). Putting Aid On Budget Good Practice Note.

project aid could be integrated in seven key dimensions of the full cycle, with the areas highlighted in bold representing the current gaps.

The delivery of greater alignment to the budget cycle depends on improving the timely flow of information on project aid flows in the context of budget formulation and reporting. A new aid database, provided it interfaces with the budget, would go a long way towards systematising such information. This is planned, but has been subject to significant delay. Just as crucially, DPs should provide timely and reliable information if such a system is to work, yet many DPs repeatedly fail to provide information in time for the budget cycle. As part of the International Aid Transparency Initiative, most DPs have committed to improving information on aid flows, and some major DPs that have not committed remain closely engaged. The biggest gaps, however, are in budget execution.

The Government of Uganda is piloting a module for the management of external project aid on its integrated financial management system in 2010/11 and DPs need to shift on-budget project onto this system as rapidly as possible. This will also facilitate the auditing of project expenditures alongside the government's own spending – another key gap in the accountability cycle. Such alignment with the government's execution, accounting and audit systems is critical to ensure mutual accountability for DP funded expenditures.

The integration of project support better into the budget systems is only one element of improving the management of project support. The Government of Uganda's own decision-making process around project support needs to be revitalised at the levels of Sector Working Groups and the Development Committee chaired by the Ministry of Finance, Planning and Economic Development, so that the government takes more of a lead and DPs provide the project support the government wants and needs. During execution, the management of DP projects needs to be better integrated with the mainstream management of government expenditures, enabling more effective use of government resources overall, and the achievement of desired results.

Pooled funding of projects should be encouraged, especially where DPs fund similar activities. However, they should not be pursued at all costs, as there are significant transaction costs associated with manag-

ing pooled funds. Avoiding overlap of project activities and ensuring the complementarity of DP support is of greatest importance.

## Conclusion – delivering against the principles of aid effectiveness in Uganda

This Background Note has set out four key strategies to improve aid effectiveness. In many ways they are consistent with, and support, the Paris Principles for aid effectiveness.

- **Ownership:** through supporting the implementation of a government's own policy and results agenda.
- **Alignment:** a clearer role for aid modalities to facilitate both policy and systems alignment. A particular focus on the integration of project aid into government accountability cycles will address the biggest gaps in alignment in Uganda and, again, supporting the government's results agenda.
- **Harmonisation:** establishing clear systems and roles for managing different aid modalities, particularly project aid, will improve both the division of labour and complementarity of aid modalities; appropriate use of pooled funding mechanisms.
- **Managing for results:** by supporting and minimising derogations from the government's results based reforms, and focusing on the real constraints to the achievement of results in different sectors.

Mutual accountability is also crucial, with a need to enhance accountability for project aid through the use of government systems.

While the Paris Principles provide a framework, the strategies suggested in this Background Note go beyond the often generic interpretation of these principles. They provide some concrete and real steps to be taken within the Ugandan context, which may shift incentives towards improved service delivery and deliver improved development results. These should form the core of the forthcoming Government of Uganda Aid Policy. Development partners in Uganda, however, should also understand that they need to change their behaviour and skills sets if they are to remain relevant in the context of reduced aid dependency.

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