Sector Budget Support in Practice

Desk Study

Local Government Sector

in

Uganda

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List of Acronyms

ABP	Area Based Programmes
CB	Capacity Building
CBG	Capacity Building Grant
CG	Central Government
CRM	Common Result Matrix
G-Tax	Graduated Tax
DPSF	Decentralisation Policy Strategic Framework
FDS	Fiscal Decentralisation Strategy
FY	Fiscal Year
IGFT	Intergovernmental Fiscal Transfer
IGFTS	Intergovernmental Fiscal Transfer System
JARD	Joint Annual Review of Decentralisation
LDG	Local Development Grant
LG	Local Government
LLG	Lower Levels of Local Government
LGDP I	Local Government Development Project (one)
LGDP II	Second Local Government Development Project
LGFC	Local Government Finance Commission
LGSIP	Local Government Sector Investment Plan
LG- SWG	Local Government Sector Working Group
LM	Line Ministry
LOGICS	Local Government Information and Communication System
GoU	Government of Uganda
OAG	Office of the Auditor General
ODI	Overseas Development Institute
OPM	Office of the Prime Minister
PAD	Project Appraisal Document
PAF	Poverty Action Fund
PCU	Project Coordination Unit
PMU	Project Management Unit
PSM-SWG	Public Sector Management – Sector Working Group
LGFC	Local Government Finance Commission
MoFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
MTEF	Medium Term Expenditure Framework
MTR	Midterm Review
NCG	Nordic Consulting Group
SBS	Sector Budget Support
SBSiP	Sector Budget Support in Practice
SPA	Strategic Partnership with Africa
UBOS	Uganda Bureau of Statistics
UNCDF	United Nations Capital Development Fund
USD	US Dollars

Executive summary

1. This desk survey examined the support from the first and second Local Government Development Projects (LGDP-I) and (LGDP-II), which provided support to the decentralization reforms in Uganda from 2000-2007.

Sector Context

2. Since establishment of a strong legal and policy framework for decentralisation in the second half of the 1990s, Ugandan local governments have presided over a major expansion of service delivery in areas such as Primary Education, Water and Sanitation and Primary Healthcare. However, improving the quality of those services has been a major challenge.

3. Resources available to local governments increased rapidly between 1997/98 and 2001/02, more than tripling in real terms. This contributed to the expansion of service delivery facilities, and associated improvements in coverage of services. Since 2002, there have been substantial increases in resources for delivering new service delivery policies, such as Agricultural Advisory Services and Universal Secondary Education, but allocations to the services which had benefited in the earlier period have stagnated. Operational resources available for these services and district management were instead eroded, and this is likely to have contributed to the paucity of improvement in the quality of service delivery. Politically motivated actions such as the creation of new districts and withdrawal of local revenue sources has put further strain on the availability of and funding for core local government staff and their operations. This has undermined local government capacity to manage service delivery, further impacting on the quality.

4. Investments in service delivery infrastructure increased substantially between 1999/00 and 2003/04. Since then investment levels have been slowly eroded, although they remain substantial. The investment in service delivery infrastructure has contributed more to the coverage of services than their quality. Furthermore, the lack of availability of funding for operation and maintenance of facilities is likely to undermine the quality and sustainability of service delivery infrastructure as well.

5. Despite the squeeze placed on operational funding, in particular for local government management functions, institutional capacity has been strengthening over time. This strengthening of capacity has enabled local governments to manage the expansion of services better than otherwise would have been the case, even if they have been unable to invest in the quality of service delivery.

The Nature of Sector Budget Support

6. The LGDP was a hybrid, made up of sector budget support (SBS) and project modalities. The bulk of the program was sector budget support which was traceably earmarked to a performance grant system. The project element, which was about 25% of the total project costs, was meant to ensure that the necessary reforms and systems to ensure that initially the new grant system was established, and later on the broader decentralisation policy was effectively implemented. Over 6 years from 200/01 to 2006/07 $225m was disbursed via LGDP from the World Bank. From 2001/2 other donors folded their support to area based programmes into the LDG/CBG framework.

7. The performance grant system had three main components. The largest component was the Local Development Grant, which was a discretionary grant for local service delivery infrastructure. Eligibility for, and the amount of local development grant a local government received, was based

on the results of an Annual Assessment of its institutional performance, which was the second component of the system. The third component was a Capacity Building Grant (CBG), which local governments all were eligible for, even if they did not receive the LDG. This would help the local governments address capacity gaps identified in the annual assessment, and enable the local government to qualify for the LDG in future. The programme also involved other forms of support, tools, guidelines and manuals as well the administration of the grant system.

8. The LDG and CBG were transferred through government treasury to local governments, and used government systems and procedures. As no reporting systems for government grants had been established, a reporting framework for the LDG and CBG was developed. There were no significant derogations from country procedures, although the LDGP provided for value for money audits and reviews. Overall financing for the LDG and CBG was provided in an increasingly predictable and flexible manner and was highly appreciated by the LGs as the major funding source for local priorities.

9. The project component of LGDP supported the establishment and management of the transfer system initially, including the Annual Assessment Process, provision of backstopping support and establishing planning and M&E systems and guidelines. A Project Management Unit (PMU) was established for this. From 2003 there was a gradual mainstreaming of its functions within the Ministry of Local Government (MoLG) functions from 2003. After 2003, LGDP supported the refinement of approaches to capacity building, and improvements government systems and procedures for procurement and financial management, and the name of the PMU was symbolically changed to Project Coordination Unit.

10. For the first iteration of the LGDP the dialogue and conditions associated with the support were largely programme specific and World Bank led. The second LGDP broadened this focus and supported the establishment of a broader framework for dialogue in the decentralisation sector. However, conditions largely remained focused on areas directly related to the sustainability of the grant system, such as initiatives on the tax assignments for LGs. Higher level policy issues and structural reforms were left to the dialogue on General Budget Support.

The Effects of Sector Budget Support

11. The main effects of LGDP can be grouped into three areas:

- First, the LGDP supported the piloting and establishment of a new performance-based grant system, which provided funding for investment in infrastructure in core LG service delivery areas, in an increasingly cost effective manner over time and relative to other grants. It has been one of the important vehicles to promote local planning and infrastructure delivery. The LDGP also provided a framework for donor financing of local investments, and donors moved away from area-based funding to the provision of SBS via LGDP. LGDP contributed to the expansion of local infrastructure and service delivery facilities. From 2000-2003 and 2003-2007, 8,204 and 12,790 projects respectively were completed using the local development grant under the two phases of LGDP and most of these within Education, Roads and Drainage, Health, and Water and Sanitation with very limited funds spent on administration. The system has been highly appreciated by all (by community groups, LGs and CG levels), has been assessed positively in various reviews and technical audits and has been taken over by GoU funding arrangements under the MTEF.
- Second, the system was a major contributor to strengthening of Local Government institutional capacity, procedures and systems in areas such as planning and financial management. This was achieved through establishing strong incentives for building capacity and strengthening performance, through the Annual Performance Assessment as the basis for determining eligibility to and rewards under the local development grant. In addition, this was supported by strong elements of CB to all tiers of local government

through demand–-driven capacity building grants to LGs (to support local capacity needs and priorities), and also supply driven capacity building (e.g. standard training of all LGs) where appropriate. Alongside this, LGDP supported the strengthening of local government systems through the elaboration of basic rules and regulations, manuals and guidelines using project funding under LGDP. An emphasis on community participation, publicity on results and transparency also helped strengthen ownership, accountability, and efficiency at the local level.
- Third, LGDP has helped established a clearer framework and plan for the implementation of decentralisation policies. LGDP-II, in particular, supported and paved the way for stronger coordination between DPs and between DPs and GoU. This was achieved through the demonstration effect of the performance grant system, which encouraged donors to fund the system. More directly, LGDP supported the establishment of the Joint Annual Reviews of Decentralisation (JARD) and the instruments to enhance DP-GoU coordination, harmonisation, alignment and improved M&E of the progress made. These processes are still incipient, but they have started an irreversible process towards strong coordination. Furthermore, the lead ministry – MoLG - has a strong ownership in this process.

12. There are, however, a number of areas where improvements to sector systems could have been greater. For example M&E systems could have been better oriented towards local government's core reporting requirements, and the assessment process and capacity building could have been better targeted towards weaknesses in public financial management such as improvement in cash management and budget credibility. In addition, the outputs of LGDP system could have been greater if efforts had been made to ensure the positive lessons learned from LGDP were learned in other sectors. Overall, cross sectoral coordination has been disappointing and it has been hard to involve the sectors in the performance-based allocation system, such as in the case of Tanzania.

13. There are two major positive effects that the improvements in sector outputs influenced by LGDP have improved service delivery outcomes:
- The support from LGDP has had a direct impact on the expansion of service delivery at the LG level (documented in Section 2.2), in sectors such as health, education, water and roads, particularly the improved coverage of citizens needs for infrastructure and service facilities – and the reduced distance of the public to schools, health units, water points etc. (see Section 2.2). LGDP contributed 36% of development transfers to local governments between 2000/01 and 2006/07. The majority of projects were satisfactory implemented and they were implemented with better value for money than other development grants.
- The contributions to improvements in institutional capacity have had effects not just on the Local Development Grant which represented 5-10% of local government revenues, but the efficiency and effectiveness of all local government expenditures. This in turn has had a positive effect on local service delivery overall and the possibilities to up-scale service delivery through local governments.

14. The fact that central government has taken over the funding of the local development and capacity building grants means that these positive effects are likely to continue in future. However, it is important to note the effects of the shift away from donors from Sector Budget Support since 2006. This has shifted the balance of resource allocation too far in the direction of policy development and supply driven capacity development support, and away from local service delivery and demand driven capacity building. The returns to supply driven institutional development support in terms of improved capacity are likely to be lower than if funding were to be invested in demand driven capacity and local infrastructure via the local development grants and

capacity building grants. The GoU and the DPs have recently started to address this issue, and are discussing various options for topping up of the local development grants[1].

15. The positive effect the LGDP has had on service delivery outcomes could have been greater if more progress had been made to maximise spill-over effects to other sectors of LGDP, through the application of LGDP procedures in other sectors. If more focus had been placed on the overall framework for financing local governments (including the implementation of the FDS), and harmonising processes across sectors, the approaches spearheaded by LGDP could have had a greater positive effect.

16. Finally, the external factors noted above have constrained the positive effects of LDG, most notably in improving the quality of service delivery and investments made, particularly in the later years of the review period. It is also important to note that events outside the sector have constrained the extent of the outputs achieved by LGDP identified above and this is likely to have a negative effect on sector outcomes. The creation of new districts has put a strain on capacity. The introduction of new structures by the Ministry of Public Service, without ensuring adequate availability of funding, has meant that many districts are understaffed. The withdrawal of central government revenue sources, without adequate compensation means that core administrative functions are now underfunded. These have all served to reduce the outputs registered by the LGDP approach; however, the dialogue, technical assistance and capacity building associated with LGDP have helped to ameliorate these effects.

Conclusions and Recommendations

17. The overall conclusion from the review is that, to a large extent, the LGDP met the objectives of the partner country and the development partners supporting it. LGDP was particularly successful in enhancing the LGs capacity and performance within core areas of administration (particularly PFM) and governance. It also resulted in the establishment of a sustainable and performance-based system of LG investment funding. The development objective of the LGDP-II, which was to "improve the local governments' institutional performance for sustainable and decentralized service delivery", has largely been achieved. It is unlikely that other support modalities, particularly the previous projectised and fragmented area-based programmes from the 1990s, would have been able to achieve the same results. This approach had a positive spill over on local service delivery, but the latter could have been stronger if the sectors coordination had been better, and if the overall environment for decentralisation had been more conducive from 2004 and onwards.

18. A number of important lessons can be drawn from the use of this "hybrid" aid instrument:

- The LGDP has shown the importance of using the GoU systems and procedures. It has supported the further refinement of these along the implementation of actual service delivery initiatives – not by focusing much on prior conditions but rather on progressive gradual improvements and performance measures;
- The hybrid approach of the LGDP instrument, combining SBS with project based technical assistance and capacity building in a coherent programme design has proved effective in building and strengthening downstream systems of service delivery.
- Although ideally they should not be needed, project units, if closely related with the general operations, can bridge the gap in a case where government institutions are having insufficient capacity. However, there is need for a clear and elaborated strategy for gradually mainstreaming of functions to the core government system, and strategy for which functions

[1] A first topping-up, supported by the DP basket fund, happened in FY 2008/09, but the support was still not fully integrated with the LDG modalities.

may be better performed through various forms of contracting out, such as e.g. the national assessments of the performance of LGs. Staff in the PCUs need to be directly linked with staff in the core Ministry – LGDP has pursued this, but it has not been without major challenges;

- In a process of aid harmonisation and alignment, various instruments can be applied and complementary as long as they are coordinated and supported within the same overall policy and strategic framework. A comprehensive and coherent project, like the LGDP, can be a stepping stone towards a broader sector investment strategy and can promote stronger DP coordination and DP-Government alignment;
- A government grant system can easily absorb a number of area-based funding schemes and reduce the fragmentation and transaction costs, providing a more equitable allocation of source across the country along the GoUs development objectives;
- The establishment of strong incentives for improvements in institutional capacity makes capacity building activities more effective. The LGDP has demonstrated that such incentives can be established by linking investment funding to an annual assessment of institutional performance. Such incentives need to backed up by a mix of supply and demand driven capacity building support. The system also needs to be supported by a strong Government commitment and a strong coherent decentralisation policy and conducive environment;
- Technical reforms can mitigate unfavourable policy initiatives, but cannot alone be fully effective without overall strong political commitment. There is a need for a stronger linkage between the technical reforms and the policy initiatives;
- The coordination between the cross-cutting decentralisation reforms and the sector reforms and the establishment of SWAp-like arrangements has proved difficult. Sector reforms have tended to undermine the decentralisation reform agenda, particularly in the absence of a stronger system of coordination. This has ultimately undermined the effectiveness of both sets of reforms on service delivery outcomes. A Ministry of Local Government, supported by DPs within decentralisation, cannot alone change this in favour of strong overall policy support. Alignment of dialogue across donor groups, plus a pro-active approach with strong networking between the core actors – MoLG, MoFPED, sector ministries, Local Government Finance Commission and the associations of local authorities - is required.

19. However, it is evident that the positive lessons from LGDP have not been fully learned by government and development partners. In the decentralisation “sector”, development partners have in some years moved away from supporting the Local Development Grant system, and concentrated on supply driven institutional capacity building at the centre since 2006, although there has been some attempts to reintroduce the SBS (this time from the DP basket funding arrangement) in the second part of 2008 and onwards. The move away from the previous strong support to the LDG is not likely to have as positive effect on local service delivery outcomes as the demand driven and incentive based model of support provided during the LGDP period. Furthermore, this model has not been applied in other sectors.

1. Introduction and Study Objectives

20. This is a case study examining Sector Budget Support in the decentralisation "sector"[2] in Uganda. It focuses on a special part of the support to this sector, namely the support through the Local Government Development Programme (LGDP) between 2001/02 and 2006/07. It was an innovative programme, made up of both project and sector budget support. LGDP funded local service delivery infrastructure whilst simultaneously providing support and incentives to improve local government institutional capacity to deliver services. LGDP has received substantial attention and has potential for the generation of fruitful lessons learned for support to decentralisation through sector budget support in Uganda as well as for other countries.

21. The overall purpose of the study is to draw together experience of SBS (in this case the LGDP) to guide future improvements in policy and practice by partner countries and donors. The additional objective of this case study is to assess the lessons from experience to date in support to decentralisation and to provide the Government of Uganda and donors with guidance that will help them improve the design and implementation of SBS in future.

22. This and the Tanzania local government case are significantly different from the other SBSIP case studies which cover conventional sectors such as health, education, roads and agriculture. They have been included in the SBSIP study as they contrast with SBS in conventional sectors in two main regards. Firstly, they involve a hybrid approach combining SBS in support of service delivery and project support in a single aid instrument. The project support predominantly comprises of packages of technical assistance and capacity building support which complements the SBS. Secondly, they involve innovative approaches to institutional development and local service delivery, explicitly focusing on the strengthening of downstream processes through capacity building and the creation of strong incentives. These cases have potentially important lessons for conventional service delivery sectors, where such approaches typically have not been applied.

1.1 Methodology

23. The case study has been carried out using a methodology (ODI and Mokoro, 2008) which draws from evaluation frameworks of General Budget Support (IDD and Associates, 2006; Lawson and Booth, 2004, Caputo, Lawson and van der Linde, 2007), and the specific requirements of the Terms of Reference for the Assignment. The assessment framework has four levels:

- Level 1 breaks down sector budget support into *inputs*, both financial and non financial inputs such as dialogue, conditionality and associated technical assistance and capacity.

[2] Decentralisation is not a typical "sector" due to its cross-cutting features. However in some countries support to decentralisation is moving towards sector-wide approaches, and decentralisation can be defined as a distinct "sector" (although not typical) in terms of coordination arrangements, support modalities, dialogue between partners/stakeholders and focus. For a definition of decentralisation, please refer to the IDD et al: Joint Evaluation of Budget Support, 1994-2004. The objectives of decentralisation in Uganda have been expressed by the Decentralisation Secretariat under the Ministry of Local Government (MOLG) as:

> *"Decentralisation is a democratic reform, which seeks to transfer political, administrative, financial and planning authority from the centre to local government councils. It seeks to promote popular participation, empower local people to make own decisions and enhance accountability and responsibility. It also aims at introducing efficiency and effectiveness in the generation and management of resources and in the delivery of services". (*Republic of Uganda, Decentralisation Secretariat 1994: Decentralisation in Uganda – The Policy and its Implications*).*

- Level 2 identifies the *immediate effects* of SBS inputs on the overall nature of external assistance to the sector.
- Level 3 examines the *outputs* influenced by SBS in terms of sector policy, budgeting, financial management, institutional capacity, service delivery and accountability systems and processes.
- Level 4 examines the likely influence of SBS on *outcomes* in the sector, in terms of the achievement of sector policy objectives and service delivery.

24. The assessment framework also recognises the importance of external factors on the effects of SBS, the context within which it is provided, and the existence of feedback loops between and within each of the levels. A diagram of the assessment framework is provided in Annex 1.

25. The primary question posed for the case studies by the terms of reference is as follows:

> ***How far has SBS met the objectives of partner countries and donors and what are the good practice lessons that can be used to improve effectiveness in future?***

26. The key purpose of the study is, therefore, the identification of good practice. Therefore, the assessment framework will be used as the basis for the identification of cases of good practice. For the purpose of this study, good practice is defined as:

> *Instances where SBS inputs (level 1), and their influence on the overall nature of external assistance to the sector (level 2), have helped strengthen sector processes (level 3) in areas which have improved, or will plausibly improve, service delivery outcomes (level 4).*

27. The case studies follow four steps in applying the assessment framework:

- The first step involves analysis of the country, sector, and aid environment, in particular evolution of sector systems and service delivery outcomes (i.e. the context from levels 1 to 4).
- The second step involves documenting and assessing the specific nature of SBS provided to the sector, and its effects on the quality of partnership in the sector (level 1).
- The third involves an assessment of the effects of SBS from inputs to outputs (i.e. across Levels 1 to 3). This is carried out along four dimensions:
    (i) Policy, planning and budgeting processes and monitoring and evaluation systems;
    (ii) Sector procurement, expenditure control, accounting and audit processes;
    (iii) Sector institutions, their capacity and service delivery systems; and
    (iv) Domestic ownership, incentives and accountability.
- The fourth step involves an assessment of contribution of outputs influenced by SBS to improvements in sector outcomes (level 4).

28. This study of the LGDP in Uganda is a *desk review* and will not have the possibilities to go into the same level of details as the full case-studies with involvement of stakeholder, interviews and field-visits to service providers. It is primarily based on review of comprehensive literature, reports and evaluations, previous field-work related to other assignments and then supplemented with written correspondence with some of the core DPs and interviews with some of the GoU officials involved in the activities. The main study questions were the following:

Box 1: Main Study Questions

Step 1: Setting the Country, Sector and Aid Context	
SQ1.1:	What have been the main national trends in poverty, economic performance, governance, and public sector delivery prior to and during the provision of SBS?
SQ1.2:	How have sector processes, institutions, accountability and service delivery outcomes evolved prior to and during the provision of SBS?
SQ1.3:	What has been the environment for external assistance at the national and sector level?
Step 2: The Key Features of SBS Provided and its Effects on the Quality of Partnership	
SQ2.1:	What are the key features of the SBS that has been provided?
SQ2.2:	Has SBS contributed positively to the quality of partnership and reduction in transaction costs between development partners, the recipient government and civil society?
Step 3: The Influence of SBS in Practice on the Sector and Lessons Learned	
SQ 3.1:	What has been the influence of SBS on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes, and what are the constraints faced and lessons learned in practice?
SQ3.2	What has been the influence of SBS on Procurement, Expenditure Control, Accounting and Audit Systems at the Sector Level, and what are the constraints faced and lessons learned in practice?
SQ3.3:	What has been the influence of SBS on Sector Institutions, their Capacity and Systems for Service Delivery and what are the constraints faced and lessons learned in practice?
SQ3.4:	What has been the Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector, and what are the constraints faced and lessons learned in practice?
Step 4: The Effectiveness of SBS, and the Conditions for Success	
SQ4.1:	What are the main contributions that SBS has made to the improvement of sector policy processes, public financial management, sector institutions, service delivery systems and accountability, and what were the conditions for success?
SQ4.2:	Have the improvements in sector systems and processes to which SBS has contributed, had a positive influence on sector service delivery outcomes, and are they likely to do so in future?

29. The Conclusion will draw out the answer to the primary questions, and examine how the practice of the provision SBS to the decentralisation sector can be improved in future.

2. Country, Sector and Aid Context

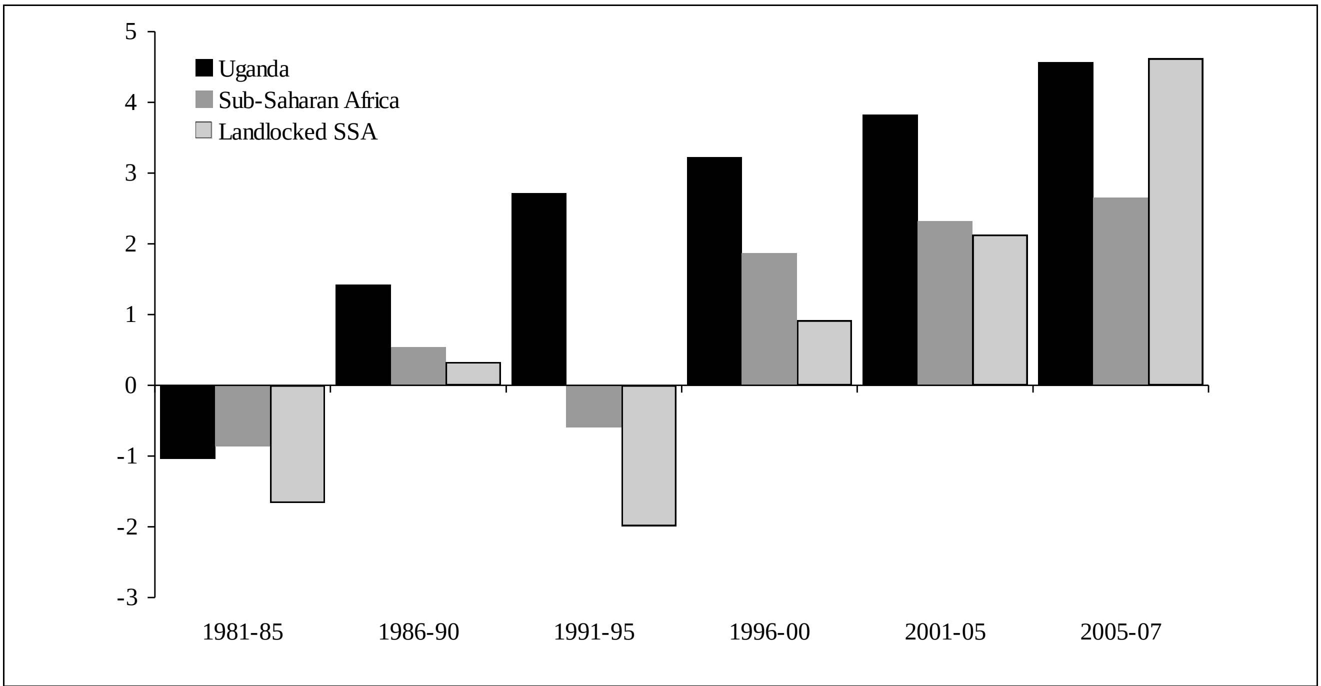
2.1 Country Context

SQ1.1: What have been the main national trends in poverty, economic performance, governance, and public sector delivery prior to and during the provision of SBS?

Economic growth and poverty reduction

30. Since emerging from decades of conflict and civil war in 1986 Uganda has enjoyed sustained per-capita economic growth, which Figure 1 shows has gained pace over time. From the early 1990s this growth has occurred in the context of a progressive liberalisation of the economy and macroeconomic stability underpinned by fiscal discipline. In recent years, Uganda has enjoyed some of the highest GDP growth rates in Africa, with real GDP growth averaging about 7.6% per year over the last decade. In 2008/09 financial year, real GDP grew by 7%, substantially higher than the Sub-Saharan average of 2.4%. There has been a significant restructuring of the country's economy, with service sector output now exceeding agricultural production, although the majority of the population still depends on subsistence farming.

Figure 1 Per Capita Real GDP Growth (%)



Source: Selassie (2008)

31. This period of economic growth and stability has been associated with a substantial reduction in income poverty from 56% in 1992 to 31% in 2006. This means that Uganda is on track to reach the MDG relating to income poverty. Table 1 presents Uganda's progress against all the MDGs, and this shows a mixed picture. Uganda has already achieved goals relating to gender parity in education and is on track those relating primary enrolment, HIV/AIDS and safe water. However, the majority of health targets are unlikely to be achieved. Meanwhile the achievement of gender parity and enrolment goals in education will be undermined by a failure to achieve primary education completion targets.

Table 1: Progress towards MDG targets

Goal	Indicator	MDG target 2015	Most recent indicator value	Likelihood of achieving MDG target
Eradicate extreme poverty and hunger	Population living below national poverty line (%)	28	31 (2006)	On track
	Children under five who are moderately or severely underweight (%)	11.5	20.1 (2006)	Feasible, but challenging
Achieve universal primary education	Net enrolment rate in primary education (% both sexes)	100	85 (2006)	On track
	Percentage of pupils starting Grade 1 who reach Grade 5 (% both sexes)	100	28 (2006)	Unlikely
Promote gender equality and empower women	Gender parity index in net primary enrolment (ratio of girls to boys)	1.0	1.0 (2002–03)	Already achieved
	Gender parity index in net secondary enrolment (ratio of girls to boys)	1.0	1.14 (2005–06)	Already achieved
	Seats held by women in national Parliament (%)	50	29.8 (2007)	Unlikely
Reduce child mortality	Mortality rate of children under 1 year old (per 1,000 live births)	31	76 (2001–05)	Unlikely
	Mortality rate of children under 5 years old (per 1,000 live births)	56	137 (2001–05)	Unlikely
Improve maternal health	Maternal mortality ratio (per 100,000 births)	131	435 (1997–2006)	Unlikely
Combat HIV/AIDS, malaria and other diseases	People aged 15–49 years living with HIV/AIDS (%)	No increase/ decline in prevalence	6.4 (2005)	On track
	Prevalence of malaria (number of standardised reported cases per 1,000 people)	No increase/ decline in prevalence	478 (2003)	Unlikely
Ensure environmental sustainability	Access to improved drinking water (% of rural population)	70	62 (2005–06)	On track
	Access to improved drinking water (% of urban population)	90	86 (2005–06)	On track

Source: Oxford Policy Management (2008)

32. There are also regional disparities underlying this progress. In particular, human development lags behind in the North of Uganda, as it has suffered from rebel insurgency for most of the last 20 years. Relative peace has returned to the area after the Lord's Resistance Army was driven out of Uganda into neighbouring countries.

Political Governance and Public Sector Reform

33. The National Resistance Movement came to power in 1986. The NRM, led by Yoweri Museveni has subsequently governed Uganda through to the present day, bringing with it a period of relative political stability. By 1995 a new constitution had been approved, and democracy was restored in 1996, with presidential and parliamentary elections. Until 2006 a no-party political system (known as 'the Movement') was in place. According to Moncrieffe (2004), 'The Movement is defined as a broad based, inclusive and non-partisan political system, in which anyone can present himself for election, and in which decisions are based on merit rather than political affiliation.' The constitution was amended in the lead up to the 2006 elections, allowing President Museveni to stand for a third term, and political parties to compete for elections in 2006. The Executive has remained strong throughout the Movement's time in power. Nevertheless, even though it is dominated by the Movement, Parliament has been growing in stature and confidence, especially since 2006 and the (re-)introduction of party politics.

34. Public sector reform was high on the agenda of the government early on. The public service was bloated and poorly paid. In 1991 the number of ministries was cut from 28 to 21 and the number of civil servants halved from 320,000 to 157,000. Most allowances and benefits were monetised to allow pay to be increased. A policy of privatisation was also pursued. A six-year recruitment freeze was imposed. The recruitment freeze was lifted in 1998 after the policies to expand basic services were introduced and the civil service has grown steadily since then, reaching 225,000 in 2005.

35. From the outset the Movement Government pursued decentralisation reforms. This involved decentralising political, administrative and fiscal powers to elected local councils. Local Governments were made responsible for the delivery of basic services such as health, education, water and sanitation. The evolution of decentralisation is discussed, in more depth, later in this section.

Policy, planning and public finance management

36. Whilst the early reforms of the movement government focused on the establishment of macroeconomic stability, democratic and public service reform put Uganda back on a sound footing, political concerns had emerged by the mid 1990s that the benefits were not reaching the poor. This sparked a period where poverty eradication became the buzzword of Uganda's policies, and the focus of policy shifted towards the expansion of basic services. The 1997 Poverty Eradication Action Plan (PEAP) was developed in a consultative manner by a unified ministry responsible for finance and planning, in response to the general concerns. In the lead up to the 1996 elections the President announced the introduction of free Universal Primary Educations, and then in the lead up to the 2001 elections, he announced the introduction of free basic healthcare. These and other policies relating to agriculture extensions and advisory services, water and sanitation were core elements of the three iterations of the Poverty Eradication Action Plan. As the 2000s have progressed, attention of politicians and policy makers has shifted back towards economic development, and policy priority has shifted more towards sectors such as roads and energy. Alongside this, the PEAP is due to be replaced by the National Development Plan and responsibility for its preparation was shifted to a newly formed National Planning Authority.

37. Budgetary reforms were central to putting into operation the policy priorities which emerged in the mid 1990s. In 1997 the Ministry of Finance, Planning and Economic Development introduced a Medium Term Expenditure Framework, and a consultative budget process similar to that used in the development of the PEAP. This involved the formation of Sector Working Groups (SWGs), made up of the representatives institutions in the sector, the MFPED, and donors. SWGs were

charged with preparing medium term budget strategy documents, to put into operation sector policies, and inform Cabinet decisions on resource allocation.

38. The sector based budget process also spurred the establishment of Sector Wide Approaches in many sectors, including education. SWGs were encouraged to develop sector plans, and monitor the implementation of those sector plans through joint sector review and monitoring processes.

Table 2: Domestic Budget Allocations to Sector PEAP Priorities 1997/98 --- 2006/07 (excludes donor)

UGX Billion (2000 prices)	(Pre-PAF) 1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Universal Primary Education	167	236	277	318	379	386	389	390	396	433
Primary Healthcare	6	29	25	72	146	174	176	183	204	192
Safe Water and Sanitation	5	17	23	44	62	66	61	60	48	58
Agricultural Extension, Advisory Services and Strategic Exports	1	0	6	5	32	35	33	38	53	58
Rural Roads	12	28	32	39	48	47	52	43	41	38
Other Poverty Action Fund	6	12	30	74	115	129	148	154	163	261
Total Poverty Action Fund	**196**	**323**	**393**	**552**	**782**	**836**	**859**	**866**	**904**	**1040**

% of Sector Budgets	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Universal Primary Education	57%	62%	65%	68%	65%	65%	65%	64%	68%	68%
Primary Healthcare	8%	31%	24%	52%	70%	76%	74%	78%	85%	85%
Safe Water and Sanitation	97%	97%	95%	97%	99%	99%	100%	100%	100%	100%
Agricultural Extension, Advisory Services and Strategic Exports	6%	2%	25%	18%	59%	58%	62%	66%	65%	69%
Rural Roads	21%	32%	24%	24%	24%	25%	31%	25%	26%	23%

% of GDP	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Universal Primary Education	1.5%	2.0%	2.3%	2.5%	2.7%	2.6%	2.4%	2.3%	2.2%	2.2%
Primary Healthcare	0.1%	0.2%	0.2%	0.6%	1.0%	1.2%	1.1%	1.1%	1.1%	1.0%
Safe Water and Sanitation	0.0%	0.1%	0.2%	0.3%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%
Agricultural Extension, Advisory Services and Strategic Exports	0.0%	0.0%	0.0%	0.0%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%
Rural Roads	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%
Other Poverty Action Fund	0.1%	0.1%	0.2%	0.6%	0.8%	0.9%	0.9%	0.9%	0.9%	1.3%
Total Poverty Action Fund	**1.8%**	**2.8%**	**3.3%**	**4.3%**	**5.6%**	**5.6%**	**5.3%**	**5.1%**	**5.0%**	**5.3%**

Source: Magona (2008)

39. An important innovation in the budget process, which facilitated the mobilisation and reorientation of resources towards PEAP priorities, was the Poverty Action Fund which was formed in 1998 (Box 2). It was originally conceived as a means for allocating debt relief and mobilising additional budget support resources for PEAP priorities including primary education and later secondary. Since then it has become a permanent part of the budget which highlights key budget priorities, and ensures protection of budget disbursements during the financial year. Early on, the PAF was instrumental in re-orienting sector budgets towards PEAP priorities as shown in Table 2.

Box 2: The Poverty Action Fund in Uganda

The programmes in the Poverty Action Fund (PAF), which was formed in 1998, represent the Government of Uganda's pro-poor expenditures. It is a virtual poverty fund which represents a subset of public expenditures in the budget which can be tracked through budget formulation and implementation.

Definition of PAF Programmes: At the inception of the PAF they were a selection of priority programmes from the 1997 PEAP. In 2000 a definition of pro-poor expenditures was agreed which set out criteria for new programmes to be included in the PAF. These were that programmes:

- must be in the PEAP;
- must be directly poverty-reducing;
- must deliver a service to the poor.

In addition a further requirement was that a programme must have a well-developed strategy or plan. Listed below are the original PAF programmes and the additional programmes included in the PAF since 1998. Since 2000, new PAF programmes have had to meet the PAF criteria.

Original PAF Programmes in 1998	**Additions between 1998 and 2004**
Primary education; Primary healthcare; Water and sanitation; Agricultural extension; Rural roads; Monitoring and accountability	District and referral hospitals; Adult literacy; Wetlands Strategic exports (cotton, coffee, etc.); Land Microfinance and restocking; Urban Roads; Community Rehabilitation; HIV/AIDS orphans; Reduction of court-case backlog; Local Government Development Programme

The PAF "Budget" Whilst allocations to PAF programmes are integrated within the MTEF, a separate PAF budget is presented in budget documentation. This is made up of the PAF Resources and PAF Expenditures

- PAF Resources: This sets out the contribution of GOU own resources and programme aid which is provided in support of PAF programmes. This includes HIPC debt relief, sector budget support, and budget support to the PAF in general. This earmarking is purely notional, as there is not tracking of budget support resources through the expenditure cycle.
- PAF Expenditures: This sets out the allocations to PAF programmes, which are a subset of MTEF Allocations.

PAF expenditures in total equal PAF Resources. Originally the GOU committed to ensuring that increases to HIPC debt relief and budget support earmarked to the PAF resulted in equivalent increases in the PAF budget, but now the GOU only commits to maintaining the PAF budget as a share of the total GOU budget.

Protection of Disbursements: Releases to PAF programmes, which are protected, were reported on in PAF quarterly reports until 2000; since then they have been reported in half- yearly budget performance reports against the PAF budget. Disbursements to PAF programmes are protected. Local Governments, to which approximately ¾ of PAF resources are channelled, report quarterly on expenditures and activities resulting from the grants they receive. A share of the PAF budget, originally 5%, is allocated to accountability institutions, line ministries and local governments for the monitoring of PAF programmes.

Emerging Concerns: Whilst there have been additions to PAF programmes, no programme has been withdrawn from the PAF, which implies that the definition of pro-poor spending has been static. There are concerns that this is leading to inefficiency and rigidities in budget formulation and execution. The narrow definition of pro-poor excludes programmes which might indirectly improve the lives of the poor, whilst the early bias towards social services in the PAF has remained, despite efforts to increase attention to the productive sectors.

Source: Williamson (2008), adapted from Lister et al, 2006.

40. A key commitment under the PAF early on was to enhance the monitoring and accountability of PAF funding. The vast majority of PAF programmes were basic services implemented by local

governments. Related to this, local governments have, since 2000, been required to report quarterly on the use of funds to access further releases. Between 2000 and 2008 this related to PAF grants only, however since 2009 this includes all revenues and expenditures.

Box 3: Strengths and Weaknesses of Public Financial Management

The forthcoming World Bank review of PFM using the PEFA methodology reveals the following strengths and weaknesses of the present system.

- Despite the historical achievements, the annual budget is not yet a credible predictor of financial outturns. All of the twenty largest MDAs under-spent against budget in 2007/08 and expenditure arrears remain high.
- The coverage of fiscal reports is comprehensive except for donor-funded projects. Transparency has also improved: the budget classification meets international GFS/COFOG standards and published budget documentation is comprehensive.
- There is less transparency with regard to conditional grant transfers from central government to Districts. Unpredictable vertical allocations make the subsequent horizontal allocations variable. In-year inter-sectoral shifts and political interventions compound the unpredictability of District government receipts.
- MFPED has developed an elaborate multi-year sectoral planning and budgeting system within a fiscal forecasting framework. It is linked to the policy framework contained in the PEAP. However, there are frequent unexplained year-to-year changes in the MTEF estimates, even in poverty-related expenditures. Changes on sector ceilings between the MTEF and the annual budget weaken the link to the PEAP.
- There are weaknesses in the government payroll, with inconsistencies between personnel records and the personnel database, and irregular reconciliations of teacher and civil servant records against the payrolls. Procurement is decentralised to over 200 purchasing entities in central and local government, but central reporting is heavily in arrears and field audit is inadequate.
- Internal controls exist but audit reports show that they are widely abused or ignored. Systemic controls in the IFMS limit quarterly commitments, but the IFMS is sometimes bypassed and the regulations not enforced. Internal audit is now being decentralised and strengthened under central guidance.
- The rollout of IFMS to the majority of MDAs has enabled automated bank reconciliations and contributed to the timeliness and accuracy of in-year MDA financial statements. Annual consolidated financial statements are also timely and they cover revenue, expenditure, assets and liabilities. At the service delivery level (sub-county), for primary education, data on the reception and use of resources by districts and schools is compiled regularly and reported on a quarterly basis.
- All entities of central government are audited every year using international standards of audit, but there has been some delay in submission of reports to Parliament. The Public Accounts Committee has brought its reports almost up to date, but there is little commitment in Parliament to table and debate the reports.

Source: World Bank (2009)

41. The early focus of PFM reform was therefore establishing overall fiscal discipline and improving budget formulation, in particular, the allocation of resources in line with emerging policy priorities. A degree of transparency and accountability for funds allocated towards these priorities was established via the PAF. However by the early 2000s turned to strengthening the PFM system more systematically, and shifting focus towards the systems of budget execution, accounting and

audit. Major improvements have been made in budget classification, increased budget credibility and reduced overall deviations, implementation of an Integrated Financial Management System (IFMS) across central government and several local governments, and in external audit (World Bank, 2009).

42. Recently, the MFPED has been attempting to address government-wide inefficiencies and wastage of budget expenditures in sector programmes. These problems have begun to be addressed at both the centre and local governments, through the introduction of a form of programme-based budgeting and strengthened budget monitoring. This has ensured a consistent and structured link between budgets and plans throughout all phases of budget formulation reporting, and monitoring. However, it can be argued that reforms have focused on central government, and not local governments, despite the fact that local governments are responsible for the delivery of basic services, the original PEAP priorities.

43. Overall, Uganda has made tremendous progress in improving its PFM system over the past 10-15 years, with ratings consistently above the average for Sub Saharan Africa. Underlying this success has been a strong MoFPED which has overseen the reform process, which has, by and large, been given the space by the executive to implement and manage those reforms.

2.2 Sector Context

SQ1.2: How have sector processes, institutions, accountability and service delivery outcomes evolved prior to and during the provision of SBS?

44. This section starts by providing a brief overview of trends in outcomes relating to services provided by local governments in Uganda. It then provides an overview of the changes to decentralisation policies, local government institutions, systems and financing. It concludes by discussing what have been the contributions of these changes to local government service delivery outcomes.

Local Government Service Delivery Outcomes

45. There has been a massive expansion in LG services between 1998 and 2008 in Uganda. This has manifested itself in increase numbers of local service facilities. The public travel greatly reduced distances to nearest schools health centres, and water points.[3] Services have generally improved in terms of *quantity* of outputs. A recent study on access to services, document the following changes[4]:

[3] UBOS (2007)
[4] UBOS (2007)

Table 2: Evolution of Service Delivery Inputs – Outputs and Outcomes

Sector	1999	2006
Health		
Distance to Health Center less than 2 km	36.9 %	66.0 %
Greater than 2 km but less that 5 Km	35.6 %	24.0 %
Greater than 5 km	27.5 %	10 %
Average distance to health centres	5.0 km	4.5 km
Distance to Primary schools		
Less than 1 Km	33 %	34.7 %
Average distance	1.4 km	1.2 km
Distance to water points		
Less than 1 km	46.9 %	71.6 %
Average distance	1.78 Km	0.8 Km

There is also an indication of a high level of user accessibility to LG facilities, particularly if funded from LGDP grants. However, persistent problems document in the survey was the lack of equipment in certain centres, lack of sufficient funding for staff and funds for current operations and maintenance.
Source: Based on a survey of about 1500 households UBOS 2007.

46. However, improving the quality of these services has remained a great challenge, as the extract from Magona (2009) below explains:

Box 4: Quality of Service Delivery in Health and Education Sectors

Health	1999	2004	2007
Proportion of approved posts that are filled by trained health personnel	33%	68%	54%
Percentage of facilities without any stock-outs of chloroquine, ORS, cotrimoxazole and measles vaccine	29%	35%	28%
Percentage of children < 1 yr receiving DPT 3	41%	89%	82%

Education	2000	2004	2007
Literacy P3	18%	38%	46%
Literacy P6	13%	30%	50%
Numeracy P3	29%	41%	45%
Numeracy P6	42%	43%	41%

Source: Magona (2009); Ministry of Education and Sports (2008); MoFPED (2009)

Decentralisation Policy, Planning Monitoring and Evaluation

47. Decentralisation was a key political strategy of the National Resistance Movement Government after it came to power in 1986. It had formed Resistance Councils during the bush war, and they were legalised through the Resistance Council/Committees Statute (Government of Uganda 1987). In the 1990s, a gradual process of fiscal and decentralisation followed.

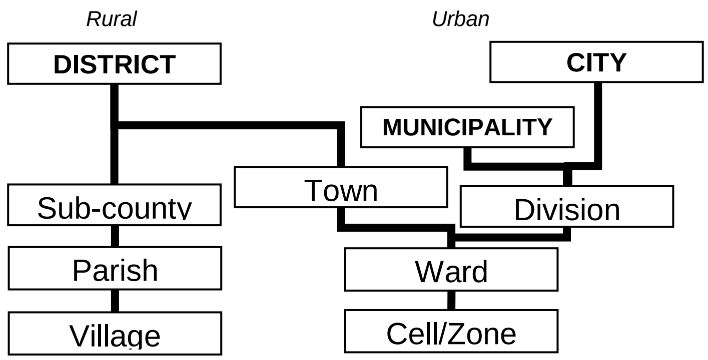
48. The basic decentralisation legal and policy framework was established in the 1995 Constitution and elaborated in the Local Government Act (1997) and the 1998 Local Government Financial and Accounting Regulations. The legal and policy framework that had been developed by 1997 was, in principle, highly decentralised along political, administrative and fiscal lines. In terms of functions, local governments were given responsibility for the vast majority of basic service delivery. In terms of administrative decentralisation, district local governments were made responsible for appointing staff, through district service commissions. Local governments were given revenue raising powers, and were responsible for approving their own budgets. The system of grants from central

government originally envisaged a high degree of autonomy with most services financed through unconditional grants, supplemented by equalisation grants, and conditional grants for jointly agreed programmes funded by central government. Central government ministries maintained responsibility for setting service delivery policies and for monitoring the implementation of those policies.

49. Since 1997 several amendments have been made to the Local Government Act. The legal framework for accounting and financial management has been up-dated and strengthened with new LG Financial Management and Accounting Regulations (2007) and related Accounting Manual (2007), internal audit manuals, comprehensive planning guidelines for each tier of government and budget guidelines. Within procurement, the legal framework has changed in 2005 with the new LG Public Procurement and Disposal Assets Regulations.

Box 5: Structure and Mandates of Local Government

The uppermost tier of local government is the district administration, which includes one city administration (Kampala). The number of districts increased from 39 in 1995 to 80 by 2007 and has continued to increase since then. At the next level rural Uganda is divided into 857 sub-county local governments, with an average population of 27,000. Urban areas are divided into 13 municipalities and 69 towns, with an average population of 59,000 and 19,000 respectively. The municipalities and the city are divided into divisions. The sub-counties, towns, and divisions are considered to be lower-level local governments. The next tier comprises 5,225 parishes and wards (the lowest-level administrative unit) and 44,402 villages, cells, and zones. Councillors are elected at the district, sub-county, and village levels in rural areas, and at the city, municipality, town, division, and cell levels of the urban authorities.



Councils exist at three main levels: the district, sub-county, and village. In urban areas councils also exist in municipalities, towns, divisions, and wards. However, the main levels of government, and authorities perceived as "local governments" are the district and sub-county, municipality, divisions, and towns.

The major services mandated to be delivered by local governments are primary and pre-primary education, district hospital services and primary health care, district and community roads, rural and urban water and sanitation, and agricultural extension and advisory services. Other services include community based services such as adult literacy, municipal waste management, environment, trade licensing, land administration, and some elements of technical education.

Source: Williamson (2009), adapted from Steffensen et al. (2004)

50. From 2000, various initiatives to monitor the performance of local governments and the implementation of decentralised policies commenced. These included an Annual Performance Assessment of LGs' that was introduced in 2000 in 39 districts and rolled out countrywide in 2003. The Local Government Information Communication System (LOGICS)[5] was developed to monitor performance of LGs in areas such as administration and service delivery. More structured efforts

[5] This M&E system has been gradually elaborated since 2001, but the use at the LG level remains a great challenge.

to monitor the implementation of the decentralisation policy started with the Joint Annual Review of Decentralisation in 2004.

51. No formal plan for the implementation of the decentralisation policy was developed until the Mid 2000s. An overarching Decentralisation Policy Strategic Framework (DPSF) was established in 2006 with a clear and comprehensive Local Government Sector Investment Plan (LGSIP) covering 2006-2016. The LGSIP was supported by a common results matrix. The LGSIP captured all activities to support the decentralisation process. However, there remain a number of challenges within coordination of the M&E systems within the decentralisation sector (particularly between MoLG and the Local Government Finance Commission, LGFC), with other sectors (such as health, education and water), and with other central institutions (such as the Ministry of Finance, Planning and Economic Development). To date, there remains no consolidated data on local government revenues, expenditures or service delivery.

52. Many of the elements of the overall policy of decentralisation were initially implemented as planned; however, there have been some significant deviations and adjustments since then. As described below, the bulk of resources were made available as conditional grants, and not unconditional grants. These reinforced vertical lines of accountability to the centre, and undermined local discretion. The Fiscal Decentralisation Strategy in 2002 (FDS) was developed to streamline the increasingly fragmented, conditional financing of local governments and promote local autonomy and accountability. However, this has only partially been implemented. Locally raised revenues have been undermined as a number of major local government taxes were abolished before alternative sources were established in 2005, further undermining local autonomy. A local government restructuring process led by the MoPS resulted in the up-grading of certain positions, but was not adequately funded. The lines of accountability to central government have been further strengthened with the appointing authority of the top civil servant in districts, the Chief Administrative Officer, being centralised in 2005, and the funding from central grants of emoluments of the district council leadership. A final trend has been the increase in the number of districts over the last 10 years from 45 in 1999/2000 to 80 in 2008/09, which has been largely driven by the president in the lead up to both the 2001 and 2006 elections.

Funding of Local Governments

53. Figure 2 shows the trends in funding local governments. Initially, transfers to local government rose rapidly. Between 1995/6 and 2001/02 transfers increased from UGX118 billion to UGX 614 billion, more than tripling in real terms. These rapid increases were a direct result of the expansion of budget allocations to basic services, such as primary education, primary health, agriculture, which were priorities in the Poverty Eradication Action Plan and the responsibility of local governments. Additional resources from debt relief and budget support donors were allocated and disbursed in full via a mechanism called the Poverty Action Fund[6], largely as conditional grants to local governments. This set the tone of funding the bulk of service delivery through conditional, rather than unconditional grants

[6] The PAF *ensured additional funding* and safeguarded expenditures on areas of particular importance for poverty alleviation (achievement of the PEAP objectives), such as primary education, primary health, agriculture, etc. The PAF increased from less than 250 Billion Ugandan Schillings in 1998/99 to more than 600 Billion in 2003/04, and more that Billion 1,200 in 2007/08.

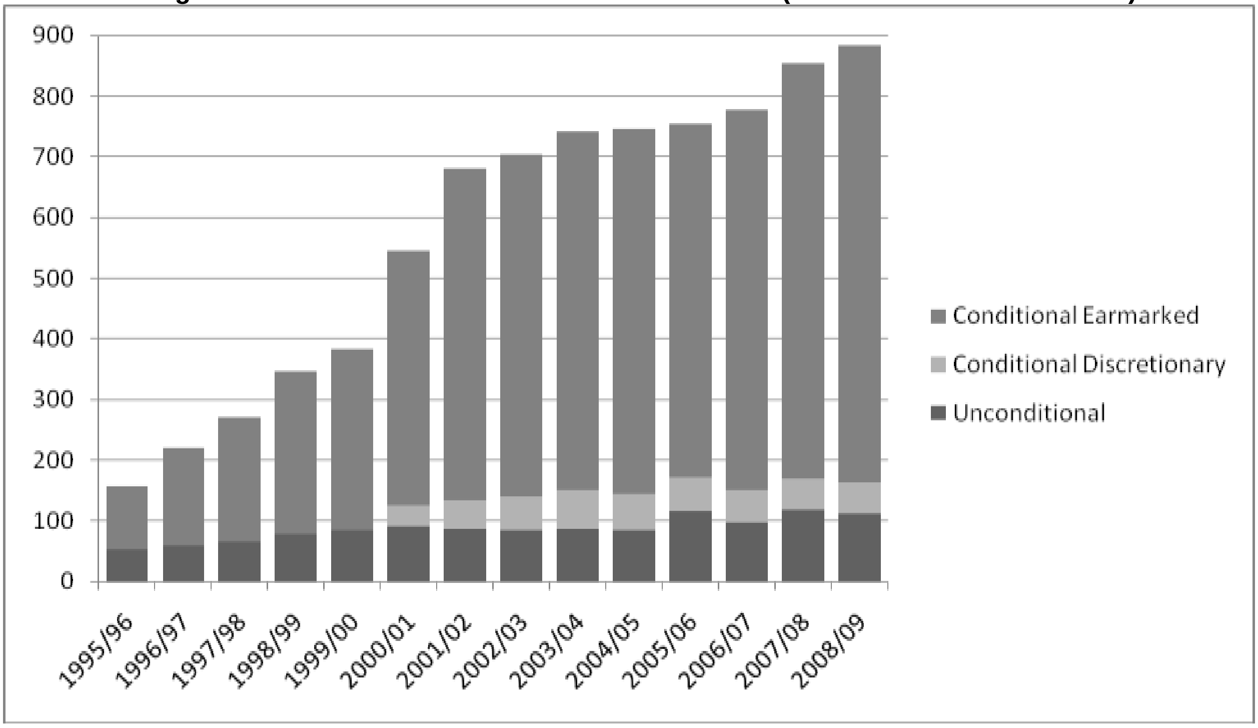
54. Whilst the early story is of dramatic increases, since 2000/01, the first year of sector budget support to decentralisation sector[7] and the introduction of discretionary capital grants to local governments, the increases have been less dramatic. Whilst overall transfers to LGs have more than doubled from UGX501.9 bn in 2000/01 to UGX1,152.3 bn in FY 2008/09[8] in nominal terms, in real terms this increase is only about 56 %. Measured in real terms per capita, the grants increased by only 25% between 2002/03 to FY 2008/09. This amounted to a significant decline as a share of the budget[9] from 27.3% in 2002/03 to a low of 22.1% in 2008/09. Furthermore, a large share of the new funding to local governments has been earmarked to the implementation of new policies, and for compensation[10] for the withdrawal of revenue sources[11]. If one takes into account the funding for these new developments, then actual transfers for the original serviced funded by central government actually fell by 14.3% in real, per capita terms between 2002/03 and 2008/09.

55. The introduction of the local development grant and the "folding in" of a number of district support programmes, previously funded by various DPs (Danida, Dutch, Ireland Aid) transformed resource allocation to districts for investment. The uneven, inequitable, funding of districts (some received 3-5 USD per capita, others zero for development investments) changed to a transparent and formula-based system, based on two criteria: 1) size of the population – 85 % and 2) size of land area – 15 % (this criterion to a large extent supported the poorer districts in Uganda, which were more scarcely populated). Subsequently, a poverty index was included as a third criterion for allocation of the LDG.

56. Local resource allocations have also been constrained by limited fiscal autonomy due to the increasing number and volume of conditional (highly earmarked) grants. This problem has increased by the failure of unconditional grant funding to keep pace with increases in conditional grants and the abolition of important LG own source revenues (such as Graduated Tax, change in the property tax base, etc). The share of LGs' expenditures financed by own source revenues has fallen from 35% in 1997/8 to less than 10% in 2007/08.

[7] As opposed to sector budget support to sectors such as health and education which had started two years before.
[8] These sections draw heavily from a recent PFM review elaborated by the same author Jesper Steffensen, based on inputs from LGFC and MoFPED.
[9] Excluding interest and donor project expenditure, i.e. total expenditures= Line Ministries + Local Governments.
[10] Which was late and inadequate.
[11] i) compensation for withdrawal of G-Tax, ii) increase in transfers to universal secondary education and iii) NAADs are considered, the increase is reduced to 33.5%

Figure 2: Trends in Grants to Local Governments (UGX Billion 2003/04 Prices)



Source: From Annex 2. LGFC's databank.

57. This problem was recognised as early as 2001, and resulted in the development of a Fiscal Decentralisation Strategy, as mentioned earlier. The FDS was supposed to streamline the transfer system, reduce the number of grants and increase the flexibility. However, the number of local government grants has actually increased from 19 in 2000, when the study behind the FDS was commissioned, to 39 grants in FY2008/09. And within each grant scheme, there are numerous budget lines which restrict the LGs' flexibility as well. The large number of grants has reduced LG discretion to target local priorities, reduced local accountability and increased the transaction costs in terms of reporting, monitoring and accounting. The FDS also introduced provisions for increasing flexibility in reallocation of recurrent conditional grants, however this has been resisted by some sectors, most notably education as described in Box 6 below:

Box 6: Resistance against Increasing Flexibility in Conditional Grants from Sector Ministries

Resistance from some of the sectors against increased LG autonomy on the conditional sector grants has been strong, and has affected the speed of implementing the reform process envisaged under the Fiscal Decentralisation Strategy

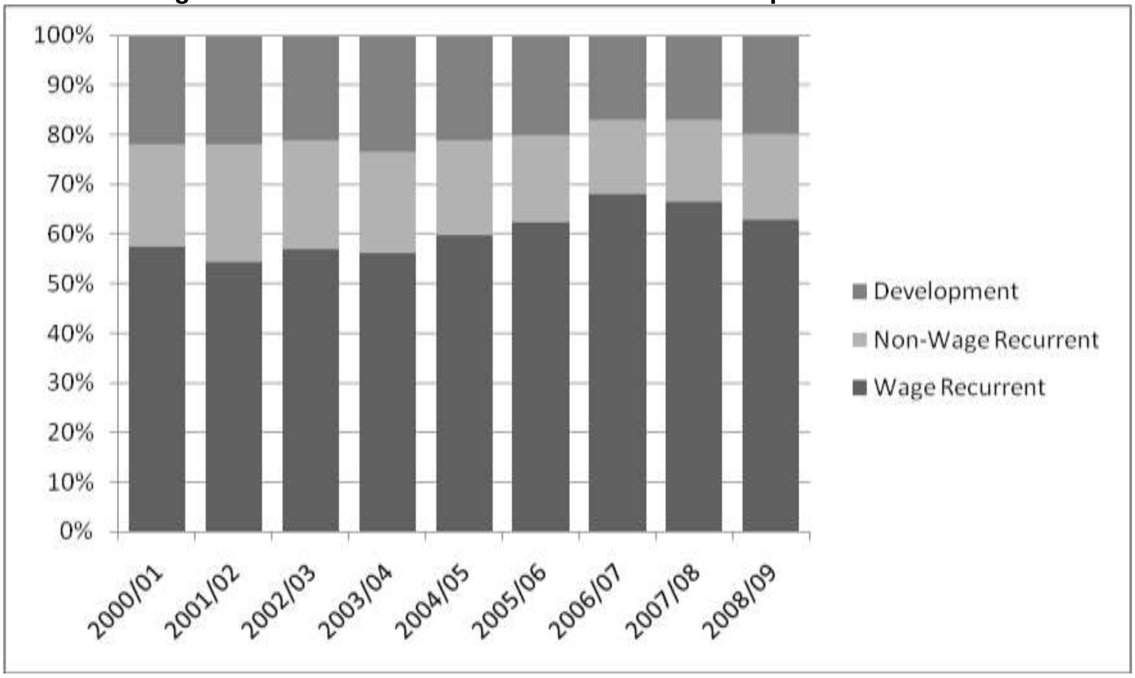
As part of DS implementation, flexibility was introduced across sector grants for recurrent, non-wage expenditures. LGs increasingly applied this system. In the Budget Framework Papers for FY 2008/09 56 out of 80 districts took advantage of the flexibility and reallocated of funds across the sectors according to local priorities and needs.

However, some of the sector ministries (particularly MoES) have worked against this and warned the districts against using the flexibility. This culminated in a decision by Cabinet to abolish the important flexibility for the FY 2008/09. This is likely to impact negatively on the priorities and implementation of core service delivery at the local level and will reduce the level of participation in the planning process, making the entire process less meaningful[12].

[12] It should be noted that access for the hardship areas in the North to introduce additional flexibility (50%) across the sectors has also been ensured as part of the Plan for Recovery and Development of the Northern Uganda (PRDP). This access covers 34 districts of the 80 districts in Uganda.

58. Figure 2 shows that the vast majority of grants fund the recurrent budget and that this share has been fairly stable at about 80% over the years. Allocations to wages increased steadily in real and relative terms, peaking at 68% in 2006/07, although this has fallen back to 63% or revenues. However, this has largely been on increases in service delivery workers. The wage component of the supposedly unconditional grants (UCG) could only cover 61.8 % of the standard staffing structures in FY 2008/09. Even if some LGs use all their unconditional grants to cover salaries, these LGs would still not be able to cover the basic salary costs.

Figure 3: Balance between Recurrent and Development Revenues



Source: *From Annex 2. LGFC's databank*

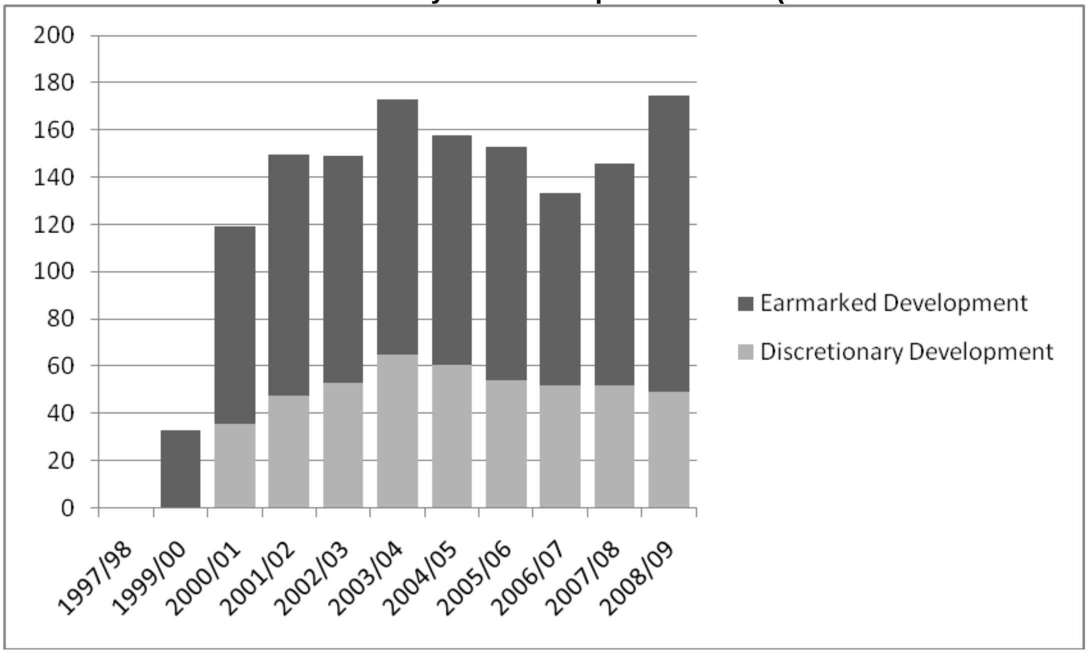
59. There was also a gradual squeeze in operational funding and development funding relative to expenditures on wages between 2001/02 and 2006/07. In fact grant revenues available for non-salary expenditures were 20% lower in 2006/07 than in 2001/02 in real terms. In 2006/07 non-wage recurrent transfers were 28% lower than their peak in 2001/2, and still 5% lower in 2008/09.

60. The insufficient resources for wages for local government administrative staff combined with the decline in operational funding which is supposedly discretionary and not earmarked to sectors has undermined LG expenditures in important areas such as planning, financial management, maintenance of investments, coordination, monitoring and inspection as well as political representation and interactions with citizens. In addition, the creation of new district councils has increased the fixed costs of running the local government system. Meanwhile, as some sectoral conditional grants have been introduced, others have suffered greater cut backs. For example in 1997/8 the primary education capitation grant was at 50% of its peak levels earlier in the decade in real terms.

61. The negative trends in own source revenues, combined with the increase in highly conditional grants, and the fact that most (if not all) of the unconditional grants (UCG) are used on the under-funded LG administrative core structures, leaves a very limited room for LG priorities within local service delivery. However, in one important area, local governments have enjoyed some autonomy, in the development budget.

62. Figure 4 below shows the trends in development in grants to LGs. Development grants were introduced to local governments in 1999/00 with the schools facilities grant. In 2000/01, four more capital development grants were introduced. Two were sectoral – for primary healthcare and rural water and sanitation, whilst two were discretionary. The first was a Dutch funded grant to support specific districts in Northern Uganda, whilst the largest of the grants was the Local Development Grant (LDG), which was the centrepiece of the Local Government Development Programme (LGDP). The LDG was provided to 39 districts initially, and to all districts from 2003/04, after which the Dutch grant ceased and was moved into the LDG.

Figure 4: Earmarked and Discretionary and Development Grants (UGX Billion 2003/04 Prices)



Source: Data from the LGFC-data bank, Annex 2.

63. By 2003/04 the Local Development Grant amounted to 38% of grants available to local governments for development expenditure, providing significant discretion. The intention of the FDS was that sectoral grants would increasingly use LDG modalities and ultimately be folded into the Local Development Grant, however this did not happen. Since then, although allocations to the LDG have been broadly constant in nominal terms, they have declined in real terms, and relative to overall transfers - from 8.8 % to 5.6 % of the total by FY 2008/09. The LDG still remains an important source of funding for local infrastructure, as the major scaling up in development grant funding between 2006/07 and 2008/09 has been to Agricultural Advisory Services, which is not capital intensive. In 2008/09 the LDG actually amounted to 44% of development grants used predominantly for infrastructure.

Local Government Systems and Institutional Performance

64. Although there are still some gaps and weaknesses, the capacity of Ministry of Local Government (MoLG) to perform its mandatory functions has improved somewhat over the past decade. The Ministry has increasingly taken over the responsibility of running various projects and programmes such as the Decentralisation Secretariat and LGDP-II, which has helped them take control of their core functions. Ministry of Local Government staff are now more directly in control of support to LGs in capacity building, mentoring, assessment and inspection. The Ministry is actively promoting the coordination of the sector, including the annual reviews under the JARD and the Decentralisation Sector Working Group (D-SWG) and the support to the LGSIP. Whilst the MoLG is now more in direct control of its core functions, the MoLG still requires significant institutional support to carry out them out

65. There have been far more dramatic improvements in the LGs' institutional capacity and performance over the past decade. Prior to the introduction of the support from the LGDP in 1999, there were hardly any plans, technical planning committees and budgets in place at the LG level. Final accounts were greatly delayed in most LGs, there was an absence of internal audit reports, gender and other cross-cutting issues were not included in the in planning process.

66. In most areas of LG performance has improved as shown in Box 7 below[13]. LGs' adherence to legally prescribed systems and procedures is better. In the areas of planning, budgeting and financial management, the performance of LGs have improved tremendously over the past 10 years, particularly in the period from 1999-2002, although there are still challenges in areas such as procurement, cash management and commitment control[14]. Budgeting has become elaborated although with room for improvement.[15] Nearly all LGs are now able to submit their final accounts on time, audit performance has improved, internal audit units and LG accounts committees have been established and the capacity at all tiers of LGs in financial management has greatly improved.

67. Accountability has generally been strengthened. Funds are used to a larger degree according to purpose, and the involvement of citizens in planning, budgeting and project implementation has gradually improved over the last decade[16]. However, the conditional grant system, with the multiple reporting requirements have led to a strong focus on upwards accountability towards the central government instead of deepening the downwards accountability.[17]

Box 7: Indicators of Enhanced LG Performance and Capacity

Status as per 2007:

- 97 % of districts prepare final draft accounts on time and submitted to OAG
- All districts, but one, have functioning internal audit units in place
- All districts, but three, have CB plans in place
- 95 % of the LGs meet co-funding obligations
- Quality of the development plans was improved as the number of rewards to LGs increased from for from: 51 in 2005 to 74 in 2007
- 93 % of districts had top score on accountability procedures
- 85 % of districts had top score on budget allocation performance, i.e. spent most of the development grants on core poverty alleviation areas, and very limited amounts were spent on administration
- 97 % of districts earned reward in procurement
- 96 % of the districts earned reward in gender mainstreaming
- 95 % of the districts earned reward in council and committee operations
- A comprehensive beneficiary survey[18] showed that 63 % of the citizens were of the view that the LG performance has improved as a result of capacity building (CB), that ¾ of the citizens are pleased with the implementation modalities of the LGDP, that there has been an increasing level of

[13] Ministry of Local Government: "*Annual Assessments of Minimum Conditions and Performance Measures for Local Governments, Final National Synthesis Reports*" from 2002, 2003, 2004, 2005, 2006 and 2007.
[14] See World Bank PAD for LGDP II, p. 56 (2003) and the Programme Review of LGDP II (Steffensen et all, 2001). On the challenges, see Tim Williamson et al: "*Local Government Public Financial Management Assessment 2005*", D*raft Report 21st December 2005 (Williamson 2005).*
[15] Ministry of Local Government (MoLG, 2007): "*Technical and Value for Money Audit of LGDP Supported Districts, Final Synthesis Report",* 2007, p. 35.
[16] UBOS (2007)
[17] IDD et al (2006), Volume II, Annex 6.
[18] See e.g. UBOS (2007): *"LGDP Beneficiary Assessment and LGMSDP Baseline",* 2007, which is based on 1485 households (UBOS 2007 Beneficiary Survey)
[18] UBOS, op. cit. (2007)

participation in investment priorities over the past 3-4 years. 9 out of 10 LGs were satisfied with the use of the LGDP.

Trends:

- In 2006, 81 % and 78 % of the districts and municipalities respectively met the minimum conditions (in terms of good quality plan, financial management as per statutory requirements, compliance with public procurement laws and ability to provide 10 % co-funding) rising from 59% and 69 % in 2003.
- In planning the percentage of HLGs which received a reward after the national assessments increased from 9 % in 2002 to 98 % in 2006 (with relative stable indicators for review over time) [19];
- Overall compliance with legal framework increased from 29 % in 2003 to 59 % in 2006.
- The number of LGs which have developed integrated CB plans increased from 39 % in 2002 to 98 % in 2006.
- There has been an improved legal compliance. During the first year of the LGPD-I in 2000 only 12 out of 39 districts could comply with the MCs. In 2004, 42 HLGs out of 74 higher levels of LGs (including urban authorities) could comply.
- The rewards in the area of legal compliance have increased from 2005: 25, 2006: 42 and 2007: 55 districts out of 80 districts.
- Whereas few LGs had rolled/up-dated development plans prior to the start of the support, now all LGs have three-years medium term plans, including a number of cross-cutting issues that are addressing the local needs. Prior to 2000, very few LGs had technical planning committees, but these were not functional in most places. In 2007, 70 % of the districts/municipalities and 80 % of the sub-counties had such functional committees in operation and the performance in planning has generally improved.

Source: Annual synthesis reports from MoLG 2002, 2003, 2004, 2005, 2006 and 2007 and UBOS Beneficiary Survey, 2007 and the World Bank Project Completion reports (2004, and 2008). The findings rely on a strong objectivity in the national assessment. Although the assessment tool has been relatively stable there is anecdotic evidence that the assessments of the districts' performance could have benefited from a stronger level of quality control. However, this is not expected to question the major trends in the results.

68. As part of the LGDP an annual assessment of local governments was introduced that assessed core areas of institutional development. Table 3 below depicts the development of performance in core PFM areas as documented in the annual assessments conducted under the LGDP for test of compliance with minimum conditions and performance measures.

Table 3: Trends in the LG Performance in the Annual Assessments of the LGs

Timing of Assessment	July 2002	March 2004	March 2005	February 2006	January 2007
No. of HLGs with compliance with all the MCs	21 out of 74 HLGs (28 %)	42 of 74 HLGs	47 of 74 HLGs	56 out of 74 HLGs	76 of 97 HLGs (78%)
Rewards from performance measures	9 out of 74	16 of 74 HLGs	34 out of 74 HLGs	18 out of 74 HLGs	33 of 90 HLGs
Overall sanction from performance measures due to poor performance	52 of 74 HLGs or 70 %	22 HLGs of 74	14 of 74 HLGs	40 out of 74 HLGs	26 of 81 (32 %)
No of HLGs which did not pass all MCs in	37 of 74	14 of 74 HLGs	15 of 74 HLGS	7 of 74 HLGs	9 of 97 HLGs

[19] World Bank (2008): *Implementation Completion and Results Report for the Second Local Development Project, June, 10, 2008* (World Bank, 2008)

Timing of Assessment	July 2002	March 2004	March 2005	February 2006	January 2007
Planning					
Rolled development plans	66 of 74 HGLs	71 of 74	73 of 74 HLGs	74 out of 74 HLGs	97 of 97 HLGs
Draft Final accounts not produced on time	2 of 74 HLGs	8 of 74 HLGs	5 of 74 HLGs	1 out of 74 HLGs	4 of 97 HLGs
Co-funding provided from HLGs (capacity in place)	28 of 74 HLGs met the MCs	58 of 74 HLGs	64 of 74 HLGs	65 of the 74 HLGs	90 of 97 HLGs
CB plans developed	35 of 74 HLGs		70 of 74 HLGs	72 of the 74 HLGs	94 of 97 HLGs
Comments from the assessment synthesis reports	Noted improve-ments from 2000/01 for all LGs in PFM	Noted improvements	Remarkable improvements over the years	Great improvement in the MCs but decline in the PMs, the problems were particularly within revenue mobilisation	The number of LGs passing the MCs has increased. Observed performance gaps in some of the HLGs requiring more backstopping support.

Source: Based on a review of the synthesis reports from the national assessments. Although there have been some smaller changes in the assessment manual, it is evaluated that it is still possible to compare the performance over time. The requirements in the MCs have been strengthened somehow over time. (1) Assessment was carried out in 80 districts, including all the new ones. Results from the 2008 assessment cannot be compared with the previous years due to changes in the assessment method and late announcements of indicative planning figures, changes in the BFP and framework for budgeting, etc.
MCs= Minimum Conditions and PMs = Performance Measures.

69. Underlying these improvements, LGs have elaborated CB needs assessments, CB plans, strengthening their HR departments and been able, through a demand-driven approach to CB, to be increasingly in charge of their own institutional development[20].

70. However, the capacity in many districts has been stretched by the significant expansion in the number of districts from 56 in 2002 to 80 in 2008 and similar expansion in the number of urban authorities on top of limited fiscal possibilities to fill in the required staffing positions as prescribed in the new LG structures, implemented from 2006. Less than 65 % of the core staffing positions are filled due to lack of funding.

Influence on Outcomes

71. What influence have the changes in policy, local government financing and systems had on sector outcomes in local government service delivery? No comprehensive evaluation exists, yet it is possible to make some observations on what have been the major influences on the quality of service delivery outcomes, from the overall context of decentralised service delivery described here, and the context provided in the SNSIP case study on Education (Hedger et al 2009).

[20] World Bank Institute (2007).

72. The rapidly increasing resources available to local governments have definitely contributed to the expansion of service delivery facilities and associated improvements in coverage of services. Since 2002, there have been increased resources for the expansion of Agricultural Advisory Services and Secondary Education, but not for the services which had benefited in the earlier period. Operational resources available for service delivery in those areas and district management were instead eroded, and this is likely to have contributed to the paucity of improvement in the quality of service delivery. Actions such as the creation of new districts and withdrawal of local revenue sources have put further strain on the availability of and funding for core local government staff and their operations, which undermines local government capacity to manage service delivery – further undermining its quality.

73. Investments in service delivery infrastructure increased substantially between 1999/00 and 2003/04, but since then have been slowly eroded. These investments have contributed more to the coverage of services than their quality. Furthermore, the lack of availability of recurrent funding for operation and maintenance of facilities is likely to undermine the quality and sustainability of service delivery infrastructure as well.

74. Despite the squeeze placed on operational funding, in particular for district management functions, institutional capacity has been strengthening over time. This strengthening of capacity has enabled local governments to manage the expansion of services better than otherwise would have been the case, even if they have been unable to invest in the quality of service delivery.

75. Thus, there is a mixed story to tell on the impact of local government financing systems and capacity of local government service delivery. Rapid increases of funding early on allowed a massive expansion in service delivery. Yet the paucity of funding available for local governments for district management functions, combined with inadequate funding for the non-wage recurrent costs of service delivery are likely to be two key factors underlying the poor quality of service delivery. The lack of autonomy available to local governments has also contributed to this, and their ability to deliver services which respond to local needs.

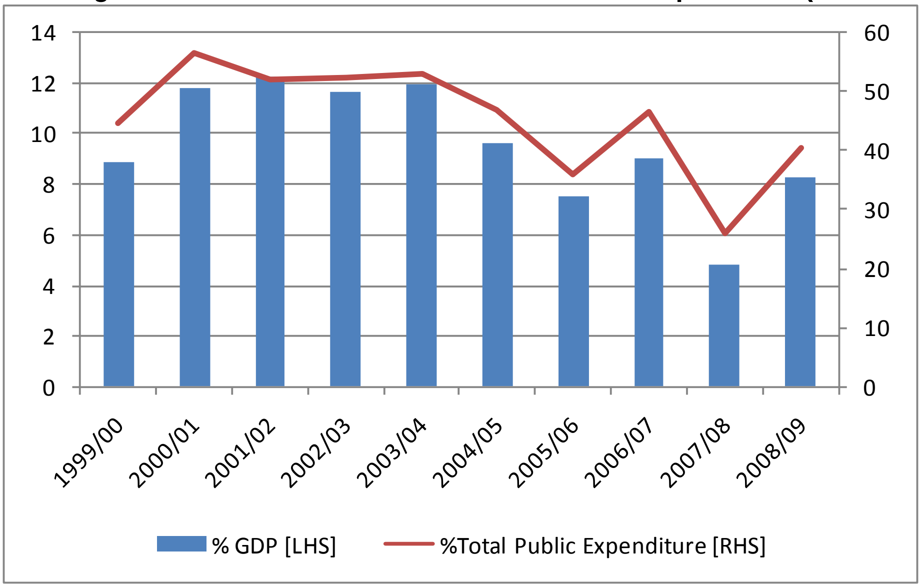
2.3 Context for External Assistance

SQ1.3: What has been the environment for external assistance at the national and sector level?

Aid to Uganda

76. Uganda is highly aid-dependent. According to Government of Uganda statistics, on-budget donor aid (as reflected in the Annual Budget document as appropriated by Parliament) averaged 9.6% of GDP between 1999/00 and 2008/09 and was as high as 12.3% of GDP in 2001/02 (Handley et al, 2009). On-budget donor aid as a percentage of total government expenditure averaged about 45.4% over the same period, although it was as high as 56.5% in 2000/01 (see Figure 5). Data on off-budget donor aid is scarce, but recorded information from the Ministry of Finance indicates that it is quite substantial, at about 3.8% of GDP in 2007/08.

Figure 5: On-Budget Aid as a Share of GDP and Total Public Expenditure (1999/00 – 2008/09)



Source: Handley et al (2010) calculated from MFPED Annual Budget Performance Reports.

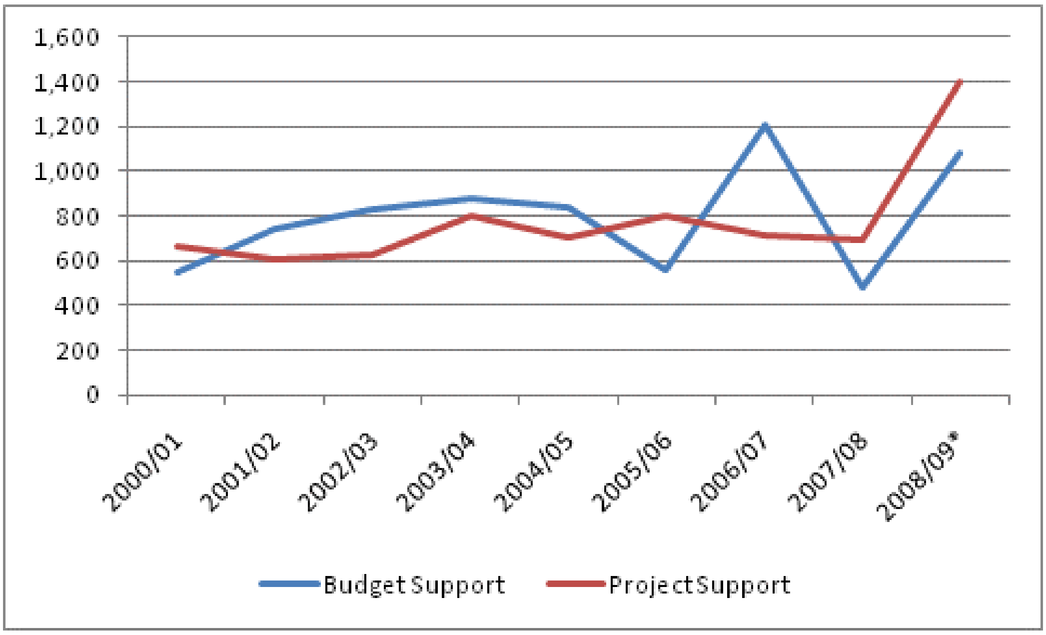
77. The aid environment is also highly congested with over 40 donors operating in Uganda.

<u>Mix of aid modalities</u>

78. Uganda has received among the highest sustained flows of direct budget support (both general and sectoral) of any developing country. This has been supplemented by debt relief since 1998 as well. Initially the shift was facilitated by the introduction of the PAF. It came in the form of budget support non-traceably earmarked to PAF expenditures overall, or to specific sectors. PAF expenditures represented a subset of Government programmes considered important for poverty eradication in the PEAP. The commitments the MFPED made to the additionality, predictability, and accountability of PAF funds provided donor confidence to do so. As confidence in the GoU's approach grew, many donors shifted from the provision of budget support to the PAF to General Budget Support from 2000. Some donors remained providing of PAF-focused GBS, in part, because it offered them a degree of political protection in terms of their own domestic accountability mechanisms.

79. The 'Partnership Principles' between GoU and its Development Partners (MFPED, 2003) set out the Government's ranking of donor support modalities in order of preference: un-earmarked general budget support, general budget support earmarked to the PAF, sector budget support, and project aid. The Partnership Principles state that SBS is acceptable to GoU provided that it supports an existing SWAp or sector development plan, and also that it is agreed between the line ministry, MFPED and the donor through the consultative annual budget process (MFPED, 2003). In the ten years from 1998/9 and 2001/8 US$ 1,810m was provided as SBS, $240m as PAF GBS, and $820m as SBS (Lister 2006, and MFPED).

Figure 6: Captured Project Aid and Direct Budget Support Outturns (2000/01 – 2008/09), UGX Billions



Note: Provisional outturn only for 2008/09.
Source: Handley et al (2010) calculated from MFPED Annual Budget Performance Reports.

80. Some commentators (see Bevan, 2007) have been critical of the PAF approach for distorting the spending allocation process and encouraging the progressive coverage of the PAF based on domestic political priorities rather than poverty-reduction priorities. From 2003, the MFPED ceased to guarantee one-to-one 'additionality' through increases in PAF budget ceilings equivalent to PAF GBS and SBS commitments. This was motivated both by macroeconomic concerns about the absorptive capacity of the economy, and a sense that spending had been reoriented enough towards basic social services in the PAF. From then on GoU provided a corresponding commitment that total PAF expenditure will be (at least) maintained as a share of total spending, alongside continued disbursement protection. For donors which have shifted from SBS to GBS, the question of whether their funding translates into additional expenditure in a particular sector or sub-sector has ceased to be a relevant concern. However, for those donors considering SBS, in particular, there is less incentive to do so, and SBS has been on a downward trend ever since. Since 2008, the MFPED line on additionality has been relaxed, with the government now willing to consider additionality in certain areas. However in the formulation of the 2008/09 and 2009/10 budgets, the application of additionality has been somewhat haphazard.

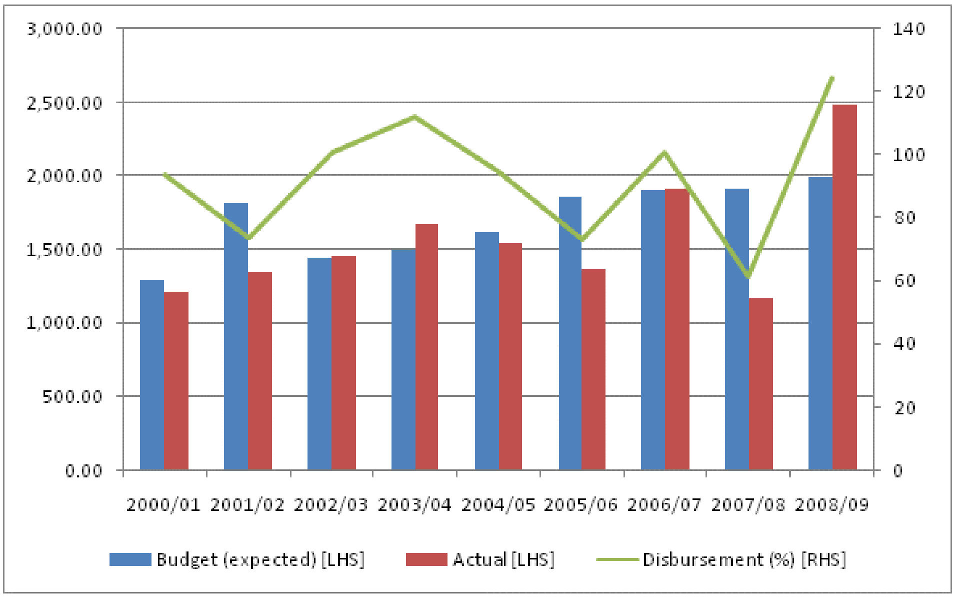
81. Contrary to the expectations of GoU in the early 2000s that an increasing proportion of aid would be channelled via direct budget support, projects remain a major source of funding and have actually increased as a proportion of total aid in recent years (see Figure 6). Common (or basket) funds are less prevalent than many countries due to the early use of sector budget support (Williamson, 2008).

82. Although many donors continue to use a mixed portfolio of aid instruments, comparisons between 1999/2000 and 2003/04 reveal that Irish Aid, World Bank and others shifted decisively in favour of programme aid (Lister, 2006). Across sectors there is a varied trend, with donor projects dominating GoU budget spending (including donor budget support) consistently in roads, agriculture and social services up to 2004/05. In contrast, the education and justice sectors have been funded principally through the budget over the same period.

Predictability of 'on budget' aid

83. Over the period 2000/01 to 2008/09, aid deviated repeatedly from budgeted levels (see Figure 7 below). On average, about 92.8% of the expected donor aid was disbursed over the period and the absolute deviations were minor in certain years. However there are wide variations, with as little as 73% and 62% disbursed in 2005/06 and 2007/08 respectively, compared to 124% in 2008/09 (Handley et al, 2009). It is important to note that this analysis does not take account of aid commitments by donors, but rather the adjusted expectations of MFPED as reflected in the estimates included in GoU annual budget documentation. Nevertheless, the extent of unpredictability – even against MFPED expectations of donor disbursements against stated commitments – is high. Whilst PAF protects certain categories of expenditure, the unpredictability of budget support disbursements contributes to greater uncertainty in other areas of government expenditure.

Figure 7: On-Budget Aid (expected by GoU) and Actual Aid Disbursements (1999/00 – 2008/09), Billions of Shillings



Source: Handley et al (2010) calculated from MFPED Annual Budget Performance Reports.

84. The new Joint Assessment Framework (OPM, 2009) for GBS includes as the sole measure of donor performance an indicator on the predictability of GBS commitments versus disbursements. The actions for the first year of the three-year framework include a requirement for JBSF donors to publish deviations in project and budget support as a means of improving budgetary planning. Although not made explicit, the likely implication is that better public information on annual predictability should incentivise donors to improve their performance.

Aid coordination and dialogue mechanisms

85. The joint evaluation of GBS in Uganda described three notable innovations in aid management and coordination since the late 1990s: the development of SWAps, the establishment of the PAF and the formulation of overarching 'Partnership Principles' between GoU and DPs. Each SWAp comprised a strategic plan governing the sector policy and legal framework, a sector Budget Framework Paper, and a consultative sector reporting and review process Magona (2009). The

transition by many donors from project support to budget support facilitated a corresponding shift in the dialogue between GoU and DPs towards sector policy and the budget. Magona (2009) reports that eight of eleven sectors had established formal SWAps by 2007/08. The Partnership Principles agreed in 2003 served to formalise the overarching framework for managing dialogue and aid.

86. In practice dialogue and conditionality for GBS was loosely tied to that for the World Bank PRSC, and associated prior actions. However following difficulties in the management of GBS conditionality around the time of the 2006 elections, donors felt there was need to move towards a more robust and consistent framework for managing GBS. This led to the development of the Joint Budget Support Framework (JBSF) with GoU. The JBSF has involved the development of a Joint Assessment Framework (JAF) as the formal instrument for measuring performance under the JBSF (OPM, 2009). The JAF was agreed in interim form in 2008, and had been fully developed by late 2009. It comprises sections on ‘preconditions for effective and efficient implementation of government policies’ (e.g. budget management, macro-fiscal policy, policy-budget alignment), ‘improved value for money in service delivery’ (e.g. funding for front-line service delivery, budget credibility), sector specific results, and donor performance. It is noteworthy that the JAF, which is intended to assess performance in relation to GBS, in fact contains specific indicators, targets and actions for health, education, transport and water and sanitation.

87. Coordination among donors is organised through cross-cutting ‘thematic’ groups and through sector groups. The thematic groups relevant to GBS address public finance management, public sector reform, decentralisation and governance. There is also a Donor Economists Group (DEG) which coordinates the overall response of the DPs during the budget process. In the education sector, the donors were represented by the Education Funding Agencies Group (EFAG) until 2009, which was renamed the Education Development Partners (EDP). The overarching donor coordination forum at country level is the Local Development Partners Group (LDPG). Despite this array of donor coordination groups (and perhaps because of it), concern was expressed by some donor representatives interviewed for this study that GBS dialogue is not well linked to SBS dialogue in the education sector. Moreover, there has been a failure to integrate sector-level planning and review processes involving EFAG and MoES with the main budget planning process involving DEG and MFPED.

Evolution of Aid Modalities to the Decentralisation Sector

88. The aid modalities within the decentralisation sector have changed significantly during the last decade. From the inception of decentralisation in 1992 to the end of the 1990s, all aid to decentralisation was provided as project support with numerous area-based programmes (ABPs) supporting a few districts and without strong coordination or collaboration between DPs and between DPs and the GoU. In 2001, 51 out of 56 districts received their local governance support through 13 separate programmes with parallel structures. Some districts were receiving funds from several DPs with a very high per capita allocation while others did not receive any kind of support and there was no overall strategy for coverage and roll-out and generally the transfers suffered from very high transaction costs[21].

89. Under the area-based programmes, districts had the discretion on the use of funds. However, the support was location specific and not necessarily aligned to the national sector priorities. It was also characterised by a very high level of transaction costs and establishment of parallel systems

[21] MoFPED (2001).

and procedures.[22] There was little or no incentive for local governments to improve their institutional performance.

90. In 1997 the UNCDF piloted an innovative approach to funding local governments through its District Development Programme (DDP), which combined traditional funding with incentives to improve institutional performance. DDP was active in five districts. LGDP-I, starting from 2000, expanded this approach, supporting 39 districts with discretionary capital and capacity building grants, as well as TA[23], linked to the incentive framework developed under the DDP. Between 2000 and 2006, as we shall describe in the next section, donors which had previously supported area based programmes moved towards supporting local governments through LGDP modalities, in the form of Sector Budget Support. Therefore, funding flows to LGs increasingly used GoU procedures, were on-budget and used government reporting and accountability systems. Support to TA/CB was divided, with Capacity Building Grant routed through GoU systems, and more conventional project based support for other activities.

91. From 2006 and onwards, a more formal SWAp for decentralisation was established, based on the Local Government Sector Investment Plan elaborated by MoLG, and the system for support changed significantly again. Each DP was requested to identify areas and support modalities within this sector investment plan. A Memorandum of Understanding was signed between MoLG and all core DPs in the field of decentralisation to ensure that support to decentralisation would pursue a coordinated approach. A basket fund (using parallel project modalities) and a joint financing agreement was formed by a core group of DPs to support core areas of the LGSIP whereas other development partners continued to provide bilateral support but within the overall strategy and activities set out in the Decentralisation Strategic Policy Framework (DSPF) and the Sector Investment Plan (2006-2016). WB/GoU formulated a new successor of the LGDP - the LGMSDP - supporting the LGSIP.

92. At the time of writing, all DP support is coordinated by the LGSIP and D-SWG, with ownership and leadership from MoLG. DP modalities use a mixture of systems and procedures, some GoU grounded, others project specific. They range from on-budget support to the overall investment plan (and to the MTEF) to smaller earmarked projects, which are included in the plan, but which may be supported directly by various DPs, which cannot use the GoUs systems, or which prefer a greater level of earmarking[24]. More funding is routed through the Government in the current system with the establishment of DP basket funding arrangement supporting the LG sector and the LGSIP. The support today has a better coverage of the entire country, is better coordinated and is allowing the local institutions opportunities and discretion to manage the sector. The support is, however, still focused on project based institutional support and capacity building, and from FY 2008/09 a smaller re-introduction of support to the local development grants (about 10 % on top of these) has taken place, although the modalities are not yet mainstreamed with the LDG approach..

93. In addition to this sector support, there is a significant level of typical SBS and GBS to local service delivery over the past decade, mainly through the Poverty Action Fund (PAF), which directs funds further down to LGs for service delivery through the intergovernmental fiscal transfer system as conditional grants.

[22] See Government of Uganda: "*Fiscal Decentralisation Study*", January 2001 and the IDD et al: "Joint *Evaluation of General Budget Support from 1994-2004*", Uganda Country Report, May 2006, Annex 6.
[23] Steffensen et al (2001): "*Links between LGDP and other donor programmes in the field of fiscal decentralisation, Donor Sub-Group on Decentralisation*", Final Report, Kampala (Steffensen 2001).
[24] However, there are still several bilateral projects within decentralisation.

94. To summarize, the support can be divided in the following phases:

Table 3: Mix of Aid Modalities for the Sector over Time

Period	Modalities	Comments
1992-1998 Project Mode	• Nearly solely project support through area- based programmes • Some piloting from 1997 of district support programmes using GoU procedures, but in few districts	• Highly fragmented, limited coordination and high transaction costs • Parallel systems and procedures applied
1998-2003 Projects and LGDP-I	• Project support still significant + • Emerging sector budget support through the PAF (from 1998) and through the LGDP I (covering 39 of 56 districts) (1) • The Dutch support was the first to shift the district support programmes first through PAF (1998 - 2000) and later from 2001 through the LGDP modalities with some extra earmarked TA support to specific districts • 1998: First meeting in the (informal) sub-group on decentralisation • FDS study conducted leading to the adoption of the FDS strategy from 2002, which pursues a higher level of discretion for LGs, less transactions costs and use of the LGDP approach for all development funding • From June 2000 joint formal meetings between DPs and GoU started • 2002: Decision amongst 5 core DPs to support the **LGDP-II** which encompassed a strong budget support element to LGs, see section 2.3. LGDP-II commenced from 2003 with a country system for support to development investments and CB support	• The funding of LG service has been greatly affected by the move towards GBS. Although the majority of the GBS is not used to finance LG budgets, the majority of the funds available for LGs' services are financed by grants (rising from about 65% of the total LG budget in 1997/98 to about more than 90% in 2003/04), and a large part of these grants are funded indirectly by the GBS. This is particularly the case after the establishment of the PAF in 1998, when Uganda qualified for the HIPC initiative and where resources from debt relief were pooled with donor budget support, and government funds within a "virtual ring-fenced" funding arrangement (See IDD et all, 2006) • LGDP had specific programme management unit/coordination unit, but was working within the framework of national institutions and using GoU PFM systems for transferring of funds to LGs.
2003-2006 LGDP-II and emerging coordination	• Project support continued • A number of DPs supported the LGDP II which has a strong element of SBS • Continued support through the GBS and SBS routed through the PAF window • First Joint Annual Review of Decentralisation (JARD), 2004 • Preparation of the Strategic Decentralisation Framework and the LGSIP, including a Common Results Matrix (completed in October 2006) • Establishment of basket Fund arrangement, operational from 2007 to contribute with non-earmarked support to the GoU investment plan (some of the DPs)	• This phase was a gradual mainstreaming of the LGDP-II to the GoU systems and procedures, in the meantime the basic systems for coordination, monitoring and evaluation of the progress in the field of decentralisation was established with an active sector working group • Funding was still fragmented with lack of an overview of all DP support. • LGDP-II was a combination of SBS (major share) and project features to support the utilisation of the grants at the local level and the core administrative capacity of central agencies.
2006- Support through the	• Still some project support but now within the overall strategy and investment plan • More support reflected in the MTEF • LGDP grants fully funded by the GoU	• Balance between project and SBS and GBS support • DPs still continue to influence priorities through the discussions on the annual

Period	Modalities	Comments
LGSIP and complement-tary instruments	from consolidated fund (indirectly supported by GBS). LGDP-II was completed by 2007. • The WB and GoU decided to continue with successor programme to ensure continued support to MoLG, LG institutional CB and improved linkages between LGs and the communities – the "Local Government Management and Service Delivery Project" • Mix of modalities with a group of DPs supporting the LGSIP with a non-earmarked basket arrangement, others through specific programmes, and components within LGSIP • Gradual strengthening of the DP-GoU coordination through the LGSWG and LGSIP arrangements • Sub-Group on decentralisation (LGSWG) further formalised and linked to the Public Sector Management (PSM) Working Group coordinated by Office of the Prime Minister.	and quarterly work-plans (now annual) • The LGSIP provides a significant improvement in the overview of all support rendered to the decentralisation sector, and promotes an improved coordination amongst a core group of DPs. • However, there is a tendency for the support to LGSIP to focus much on the TA/CA side of the coin, and less on the fiscal support to the LGs in terms of reforming the grant system and expanding the funds for service delivery. Some of the activities in the LGSIP are still project specific, but just captured to provide everyone with the entire picture. From FY 2008/09 a smaller support to the local capital investments were (re-) introduced supported by the DP basket funding arrangement under the LGSIP although not yet fully integrated with the local development grant modalities.

(1) The PAF *ensured additional funding* and safeguarded expenditures on areas of particular importance for poverty alleviation (achievement of the PEAP objectives), such as primary education, primary health, agriculture, etc. The PAF increased from less than 250 Billion Ugandan Schillings (UGSH) in 1998/99 to more than UGSH 600 Billion in 2003/04 and 1,200 Billion UGSh in 2007/08, and the majority (about 75+%) were allocated to LGs as conditional grants.[25] Together with other government/donor funds (outside the PAF area), this window caused a significant increase of funds for inter-governmental fiscal transfers from UGSH 118 Billion in 1995/96 to budgeted UGSH 1,152.3 Billion in 2008/09.

95. There is no comprehensive overview of the *support* to decentralisation over the past 10 years. It is difficult to quantify the size of support to decentralisation, as much of it was provided via off-budget project support modalities. LGDP amounted to $224m over 7 years. The recently approved LGSIP FY 2008/09 work-plan has a total budget of approximately $43million, of which $29 million or 68 % is captured in the MTEF[26]. Of this $11m is to be provided by the DP basket fund arrangement. Most of the support through the LGSIP is for TA/CB support to various tiers of governments and a smaller share (10-20%) has been agreed for investments in infrastructure and service delivery through topping up of various grants and support schemes.

Donor Dialogue and Coordination

96. Prior to 2000, there was little coordination amongst donor support to local governments. From 2000 a stronger emphasis on donor harmonisation and coordination emerged alongside the support to LGDP. A donor "sub-group" on decentralisation was formed. Initially each DP pursued the dialogue through its own projects, but the pooling of resources under LGDP started improving the coordination, even during the preparatory stage. Joint working became common – through joint DP missions; joint support to the design of the Fiscal Decentralisation Strategy; joint reviews of the LGDP; and joint analytical work on decentralisation. Although these initiatives were, from the beginning, rather donor driven, the ownership from the GoU, particularly MoLG and MoFPED,

[25] See Williamson and Canagarajah, 2003, p. 457 for further details.
[26] Most of the non-MTEF funding derives from support from EU and ADB.

grew over time. MoLG had a keen interest and leadership in the design of both iterations of the LGDP[27]. The emerging coordination with establishment of joint GoU and DP decentralisation working groups was reflected in the joint midterm evaluation of the LGDP-I and joint DP-GoU support to the design of the LGDP-II, which encompassed a comprehensive budget support to LGs as well as more targeted CB support to systems and procedures at all levels of government.

97. A relatively robust system for *dialogue* has emerged, starting with the first Joint Annual review of Decentralisation in 2004, which was to review performance in the sector. A Decentralisation – SWG, with government and donor participation, has been formed and is likely to gradually improve on the coordination Regular meetings on the plans and budgets for the LGSIP, and with dialogue about the core issues of importance for the sector with the sector working group consisting of the DPs and core institutions for decentralisation lead by MoLG. All actors supporting the LGSIP irrespective of the modality (basket, project etc.) are supposed to have their work plans incorporated in an integrated sector work plan. However, this has not yet been fully achieved, although most of the core DPs are supportive. A small secretariat was also established in MoLG from the beginning of 2008 to coordinate the support through the LGSIP activities and funding arrangements. The LGDP-II was successfully completed in 2007 and the GoU took over the funding of the development and capacity building grants from FY 2006/07. Most of the TA/CB support is now continued under the joint instruments applied in the support to the LGSIP. A relatively small part of the joint donor support through the basket funding arrangement (LGSIP) was, from FY 2008/09, provided as support for augmenting of the local development grants, but this has not yet been fully integrated in the grant scheme.

98. The involvement of NGOs/civil society in this dialogue is also limited at the national level, but the JARD ensures that at least the LG staff and politicians have been comprehensively consulted during the district, regional and central level workshops. Within the support on the LGDP, the dialogue between the GoU and the World Bank/bilateral partners mostly focused on the future sustainability of the entire system of local governance – i.e. the reforms of the system of LG revenue assignments and improved coordination of the reform process, including M&E challenges. The cooperation is guided by a Memorandum of Understanding between the GoU and the core DPs and a Joint Financing Agreement for DPs contributing to the LGSIP basket. A few decentralisation "pre-conditions" have also been included in the PRSC/GBS, e.g. the need to elaborate a Fiscal Decentralisation Strategy and need to compensate for tax abolitions; and this will be continued under the coming Joint Budget Support Operations (JBSO) and Joint Assessment Framework (JAF) for monitoring and review of conditions for budget support in Uganda[28].

99. There has been an improved dialogue and partnership on the LG technical issues, such as planning guidelines, tax manuals, M&E systems and coordination of DP support for decentralisation and capacity building of LGs, but on the overall policy and strategic issues such as the LG structures – the increase in numbers of LGs and political structures, the flexibility and autonomy of LGs, the attempts from some DPs to influence the development has had very limited impact.

[27] Ministry of Foreign Affairs, The Netherlands (2003): *"Co-ordination and Sector Support – an evaluation of Netherlands' support to local governance in Uganda",* 1991-2001, June 2003, IOB Evaluations Nr. 294 (Netherlands 2003) and interviews with core staff in MoLG.

[28] There is an ongoing work and cooperation between the GoU and the development partners providing budget support to define the coming JAF 1, which will guide the allocation and M&E within the future budget support operations.

100. The dialogue has in some places been reflected in the dialogue on General Budget Support, where conditions in the PRSC support (GBS) have been generated in the D-SWG[29]. Decentralisation indicators will form and important part of the coming Joint Assessment Framework for Budget support operations in Uganda.

101. Overall, the dialogue and partnership between the DPs and the GoU in decentralisation has been gradually strengthened, but the weaknesses in the linkage and coordination with the other sectors, for example on M&E, still persist.

[29] Such as need to ensure a minimum level of funding for the new LG structures, compensation of G-Tax abolition etc.,

3. The Key Features of SBS Provided and its Effects on the Quality of Partnership

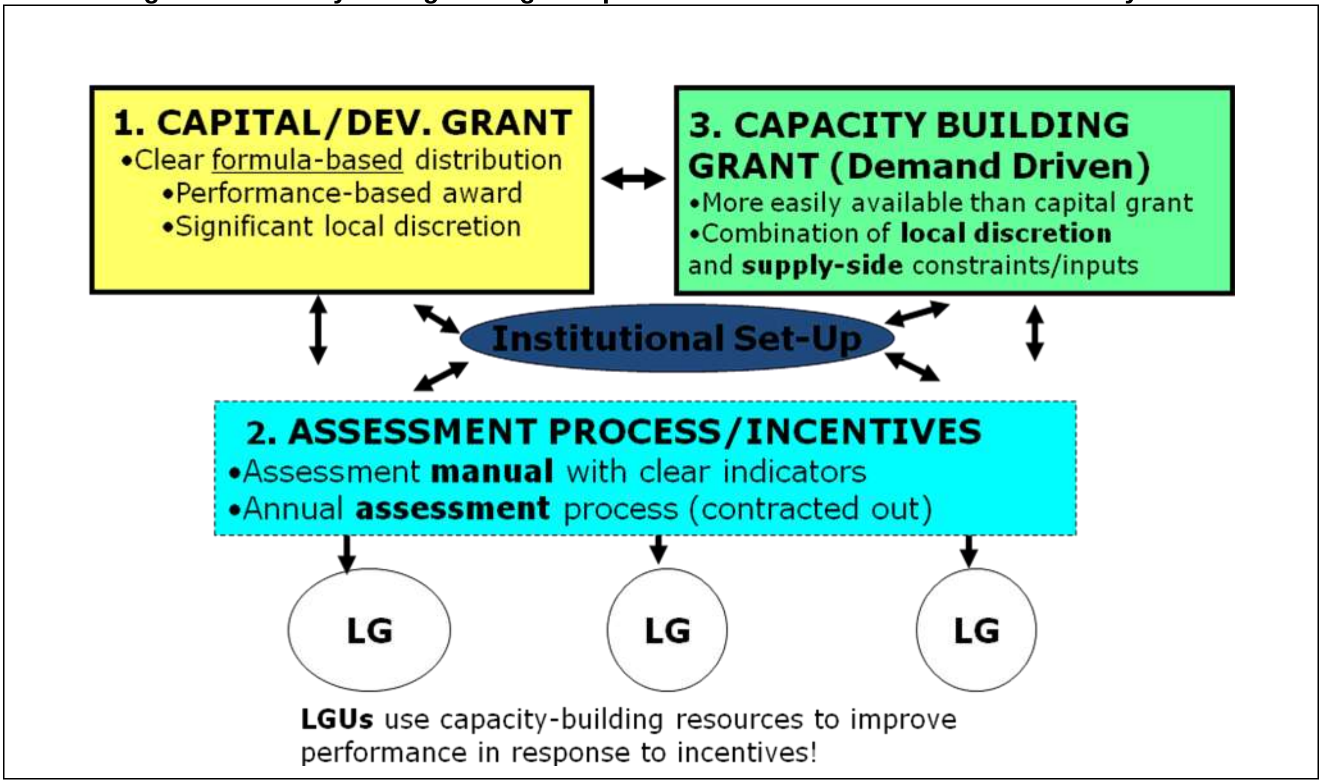
3.1 The Key Features of SBS Provided

SQ2.1: What are the key features of the SBS that has been provided?

The Evolution of SBS and its Objectives

102. The support reviewed in this study is the support under the Local Government Development Programme. At the heart of the LGDP design, and the DDP pilot which preceded it, was a performance based grant system. The system had three, mutually reinforcing components, which were intended to provide strong incentives for local governments to improve their institutional performance:

Figure 3: Mutually Strengthening Components of a Performance-Based Grant System

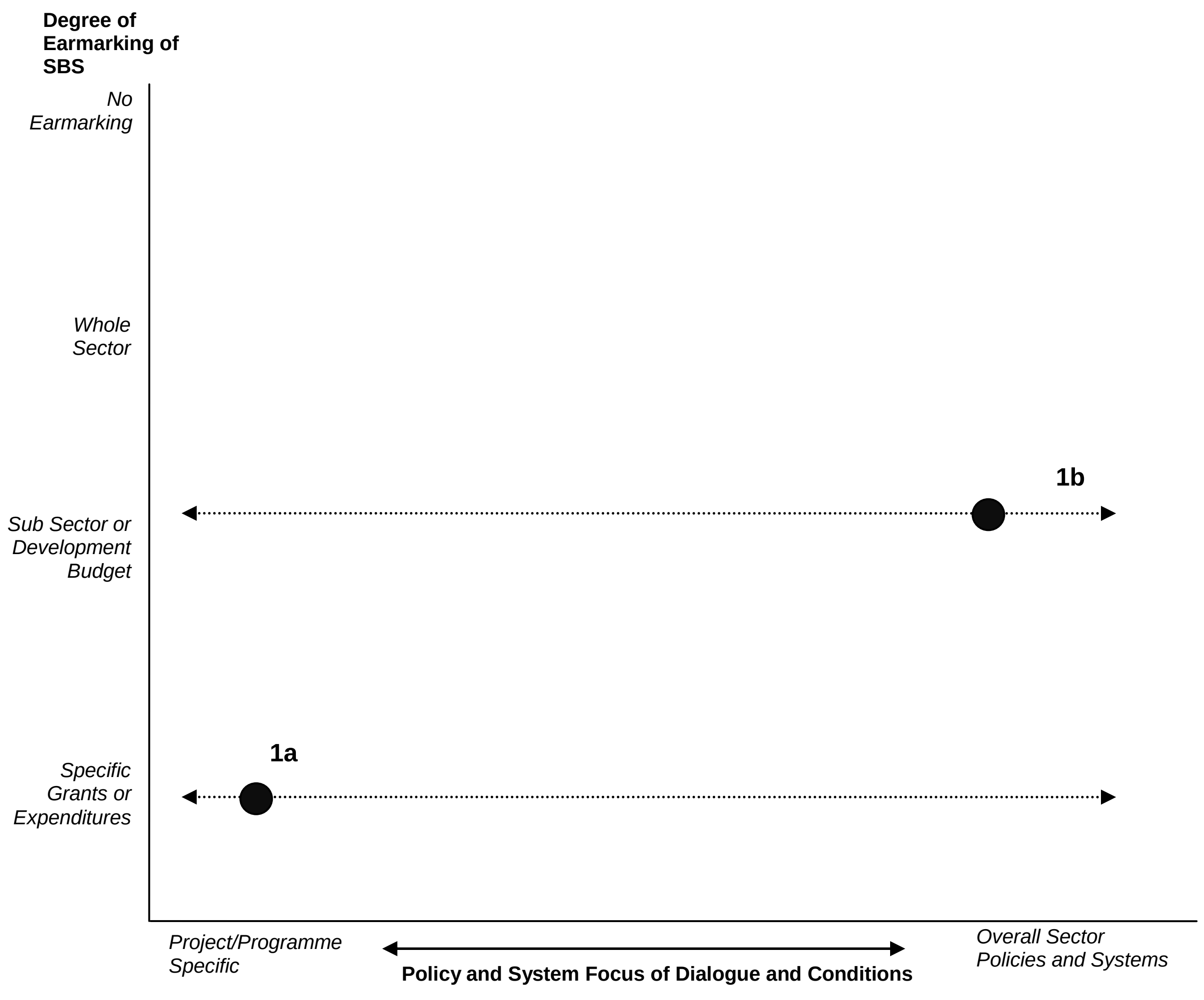


103. The largest component was the Local Development Grant, which was a discretionary grant for local service delivery infrastructure. Eligibility for, and the amount of local development grant a local government received was based on the results of an Annual Assessment of its institutional performance, the second component of the system. The third component was a Capacity Building Grant (CBG) which local governments all were eligible for, even if they did not receive the LDG. This would help the local governments address capacity gaps identified in the annual assessment, and enable the local government to qualify for the LDG in future.

104. For the purposes for the overall SBSIP study[30], Sector Budget Support is defined as those aid programmes where:

- *Aid uses the normal channel used for government's own-funded expenditures. Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the ministries, departments or agencies (MDAs) responsible for budget execution.*
- *The dialogue and conditions associated with the aid should be predominately focused on a single sector.*

Figure 8: The Spectrum of Sector Budget Support Covered by the Study



1a. LGDP from the perspective of central government and donors

1b. The LGDP (SBS) funded Local Development Grant from the perspective of local governments

[30] See SBSIP inception report p7.

105. Although the LGDP in World Bank terminology was defined as a “project”, it was actually a hybrid of made up of SBS and project components. The Local Development Grant (LDG) and the Capacity Building Grant (CBG) provided to LGs constituted the major share of the programme (70-75 %) and were supported by SBS. The smaller, traditional project components, *inter alia*, supported the management of these grants, as well as TA and Capacity building support for decentralisation policy and systems development.

106. Figure 8 shows the nature of Sector Budget Provided under LGDP from the perspective of Local Governments as recipients of grants and from Donors and Central Government.

107. Following the DDP pilot supported by UNCDF, the World Bank scaled up the support in 2000 through LGDP-I to cover 39 of the 56 districts. Although the LGDP-I has elements of support to the overall decentralisation reform process, including planning and budgeting guidelines, accounting systems etc., it mostly focused on improving the LG capacity to handle funds for service delivery channelled through the performance-based grant system. It was still considered an experimental project, with an objective to: *“Test the feasibility of implementing constitutional and legal mandates with respect to decentralized service provision and devolution of the development budget through the provision of investments funds to the Local Governments (LGs).”* Most of the funds (about 70-75 %) went as sector budget support to fund the CBG and LDG. Thus from a central government and donor perspective, the SBS under LGDP-I was tightly earmarked to the LDG, CBG and the dialogue and conditions largely programme specific.

108. LGDP-II commenced in 2003. The development objective of the LGDP-II was to: “*improve the local governments’ institutional performance for sustainable and decentralized service delivery*”. It continued along the positive lessons learned from LGDP-I, but was a broader support programme of the overall process in decentralisation, including support to the strategic framework, JARD, M&E systems etc. Again, LGDP-II was a hybrid, comprising of components of SBS and Project Support. Whilst SBS funds remained earmarked to the CBG and LDG, the dialogue and associated project support was less focused on the grant systems, which had already been established.

109. Although LGDP was initially funded by the World Bank, it is important to highlight again that it became a vehicle for harmonising donor support to local governments. From 2001/02, the Netherlands began to channel its district sector budget support through LGDP modalities. Three further donors joined the implementation of LGDPII from 2003 - Denmark, Austria, and Ireland, through a mixture of aid modalities, but with a greater part of the funds as sector budget support.

110. As seen in over time the LGDP support has evolved as follows:

Table 9: Development in the LGDP related to SBS

Years	Major support instruments	Features/comments
1997-2000 Piloting	Piloting of the performance based grant system in few (5) districts – supported by UNCDF Support focused on piloting of systems and procedures related to grant funding of services	Project support The District Development Project model had great promises for the future performance-based allocations to LGs Other support: Highly fragmented support with a high level of area-based and highly DP controlled projects
2000-2003	Scaling up of the pilot with	LGDP project support but with a

Years	Major support instruments	Features/comments
LGDP-I	refinement supporting 39 of 56 districts – (World Bank funding) Support focused on testing of systems and procedures for LG service provision, coupled with improvements of basis systems of PFM	strong element of SBS, highly earmarked. Hybrid model. Multiple projects, mostly with area-based focused. Emerging cooperation surrounding the LGDP approach.
2003-2007 LGDP-II	Support to LGs covers all LGs. Funding from 5 development partners. Very comprehensive programme supporting the grant system, the overall decentralisation reform process as well as core systems and procedures related to PFM and good governance, support to enhance capacity of all tiers of government within decentralisation	LGDP project support with a strong country-wide element of SBS, highly earmarked but flexible in implementation. Hybrid model. DP joint funding of the LGDP through the consolidated budget. Other DPs continue with projects supporting LGs with various modalities, but investment support mostly supported through the LGDP modality. Although the LGDP was declared the GoUs strategy for transferring of development funds to LGs, many other funding channels continued to undermine local priorities. LGDP supported the DP coordination through support to important instruments such as the JARD.
2006/07 Successor to LGDP-II, the support to the LGSIP and other initiatives.	The grant funding of the LGDP-II is now funded by the GoU (MoFED) from the consolidated fund. From FY 2008/09, the LGSIP has provided some project support to augment the local development grant, but it is not fully integrated with the modalities. Support from DPs coordinated through the LGSIP and a group of DPs now just provide non-earmarked funds to the SIP, other in a more earmarked manner, but all within the same coherent plan. World Bank and GoU continue with a successor of the LGDP-II – the new LGMSD now focusing more on linkages between LGs and communities and continuing of the support to institutional reforms to stabilise the reform process.	The LGSIP is now the major coordination instrument. The LGSWG is gradually being strengthened, but there is still room for improved coordination and strengthening of the SWAp. LGSIP comprises the overall plans and budget for the entire sector, but modalities are mixed. A group of DP contribute non-earmarked through a basket fund arrangement to the plan. Others through specific projects.

111. LGDPII was the final World Bank project to support the performance grant system via SBS. Since 2006/07 the LDG and CBG have been funded by the GoU from its own revenues, although a number of bilateral donors have continued to support a joint basket funding arrangement through the LGSIP focusing on institutional improvements and capacity building of central and LG institutions. However, an agreement has been made by the basket funding DPs and the Government that a part of the support to the basket funding of the LGSIP (about 25 %) should be used to "top-up" the Government funded local government grant (on-budget, through the usual Treasury funding flow channels[31]).

The LGDP-II was supposed to be used as a transition from project to GBS. This happened to some extent with the mainstreaming of the LDG and CBG, although there was no corresponding increase in GBS after the close of LGDPII. Instead, the sector now has a common LGSIP and associated funding modalities in support of LGSIP. However, some of the DPs, including the World Bank, which was behind the original support to the LGDP and the wish to move towards decentralisation budget support, have backtracked to some extent to the use of project modalities. The reason for this continued project approach (although this is coordinated under the LGSIP) is to "p*rotect institutionalised reforms and specific earmarked objectives, including a wish to have an exit strategy in case the GoUs' commitment to decentralisation reforms dissipates*".[32] As described in Section 2, a number of other DPs are supporting the overall sector investment plan through project and basket finding, but this cannot be defined as SBS in the pure sense (funding flows from the pooled holding account directly to the sector ministry – MoLG).

The Level of SBS Funding and Its Predictability

112. The size of LGDP 1 was USD 89 million. The Dutch provided a further USD 14 million through LGDP modalities. Support for the LGDP-II was provided by the five donors to the tune of USD 165 million. The sizes of the different components of LGDP I (2000-2003) and LGDP II (from 2003-2007) are show below:

Table 6: Budgeted and Actual Disbursements of the LGDP-I

Components	Budget estimate (USD Million)	Actual USD (Million)	% of total Programme
Component 1 – Support to MoLG and LGFC	8.08	3.64	4.4%
Component 2 – Support to Financing of Basic Service Delivery(Grants to LGs - SBS)	52.34	49.22	60.0%
Component 3 –*Support to Kampala City*	*16.67*	*20.50*	*25.0%*
Component 4 – Support Programme Mgt and M&E	*2.00*	*2.21*	*2.7 %*
Total LGDP Funding	***89.93***	***82.16***	***100.0%***

[31] There is still an on-going discussion on the modalities for this, but the initiative is a reaction on the criticism that the LGSIP support is focusing too much on CB support to central level institutions, and not sufficiently targeting LG service delivery. If the agreement is implemented, it will mean a 10-15 % increase in the size of the GoU grants.

[32] World Bank: Project Information Document (PID) appraisal, AB3339, 2008 and interviews with previous TTL.

Funding was from IDA: 74.60 and GoU: 7.56 Million USD. Source World Bank Implementation Completion and Results Report, Vol 1, 2004.

Table 7: Budgeted and Actual Disbursements of the LGDP-II

Components	**Budget estimate (USD Million)**	**Actual USD (Million)**	**Percentage of total**
Support for decentralisation process	23.6	33.61	18.5
Local Development service delivery (grants to LGs - SBS)	107.58	118.8	65.4
Local Government capacity building grants (SBS)	15.3	14.66	8.1
LG revenue enhancement	12.1	8.15	4.5
Project management coordination	6.8	6.52	3.6
Total LGDP II	**160.08**	**165.0**	**100.0**

Source: World Bank (2008). Implementation Completion and Results Report, June 2008, p. 37. Gou contributed USD 15.4 million to the LDG. This amount was not previously budgeted for under the programme and represents 9.5 % of the budget costs.

113. The Local development grants to LGs were disbursed in the tune of around 1 USD per capita for the rural areas and 2 USD per capita for the urban areas, using a clear transparent allocation formula. The flow of funds to the LGs from LGDP I and LGDP-II was as follows: LGDP I: Total Local development grant disbursed: USD 49.2 million from 2000-2003[33]. The transfers from LGDP-II are shown in the table below:

Table 8: Transfers to the LGs from the LGDP-II[34]

Component	**2003-04 (Million UGSH)**	**2004-05 (Million UGSH)**	**2005-06 (Million UGSH)**
Local development grant	54,502	54,374	52,076
Capacity building grants	7,332	6,759	5,146

Source MoLG: Technical and Value for Money Audit of LGDP II support districts, Final Synthesis Report, December 2007

114. The majority of LGDP was SBS, with the local development and capacity building grants accounting for about 74% of the project costs. The project element to support the implementation constituted 26 % of the total project cost. Overall, programmed amounts were relatively reliable. Data was not available on in-year predictability of donor disbursement.

Earmarking, Additionality, traceability and Financial Management Arrangements

115. SBS funds were earmarked to the Local Development and Capacity Building Grants and, as these were new grants formed as a result of the programme, they were clearly additional budget allocations too. SBS was traceable as a result (see Box 8 below for the study definition of earmarking and traceability). For the duration of the two programmes the combined value of the LDG and CBG budget was consistent with the size of donor support. From 2006/07 the GoU has taken over the funding of the grant, which is currently about 30 million USD per annum.

[33] IDA and GoU funding USD 44.3 Million and 4.92 Million respectively.

[34] The funding of the LGDP-II came from GoU: Million 14.9 USD, Denmark: 2.4, Austria: 0.3, Ireland: 7.5, Netherlands: 15.0, IDA loans: 50.0 and IDA grant 75.0.

116. At the local level, the LGDP grants were amongst the only grants providing the LGs with a high level of discretion to spend on local development needs as long as it was within the broadly defined investment menu (funds could be used across the sectors). 65% of the LDG and CBG was transferred to sub-counties, whilst 35% was retained by districts.

117. The flows of funds were quite similar in LGDP-I and LGDP-II. There were two channels of funds – one for the project support and one for the Sector Budget Support:

1. IDA transferred its Sector Budget Support into a special account, whilst other donors channelled their support into a different special account. Funds were then transferred into the government consolidated fund (treasury) from both these special accounts. The funds were then transferred further down to the LGs, using the conventional government disbursement system, but as a separately identifiable conditional grant in the government's budget.
2. For the project components the MoLG and other central institutions, support was routed through a special account down to a project account in MoLG, i.e. not through MoFPED, Treasury and the consolidated fund, see the flow of funds figure 3 below.

Box 8: Earmarking, Traceability and Additionality

Earmarking is a requirement that all or a portion of a certain source of revenue, such as a particular donor grant or tax, be devoted to a specific public expenditure. The *extent* of earmarking can vary. It involves the *ex ante* assignment of funds to a particular purpose and can range from the very broad and general to the narrow and specific.

Traceability refers to whether donor funds are separately attributable to a specific use. Funds are either traceable, or not:

(i) **Traceable**, whereby allocation, disbursement and spending of funds is via specified and separately identifiable budget lines. This bypasses the normal procedure by which revenue is pooled with all other revenue in a general fund and then allocated among various government spending programmes. *De facto*, a traceable aid instrument must involve a degree of earmarking, although this may be very broad - this is often referred to as *real earmarking*.

(ii) **Non traceable**, whereby external funding is not identifiable by separate budget lines. If earmarked, the allocation of funds is justified against budget allocations to pre-agreed institutions or budget lines and is pooled with other government revenues in the general fund. When non traceable SBS is accompanied by earmarking - this is often referred to as *notional earmarking*.

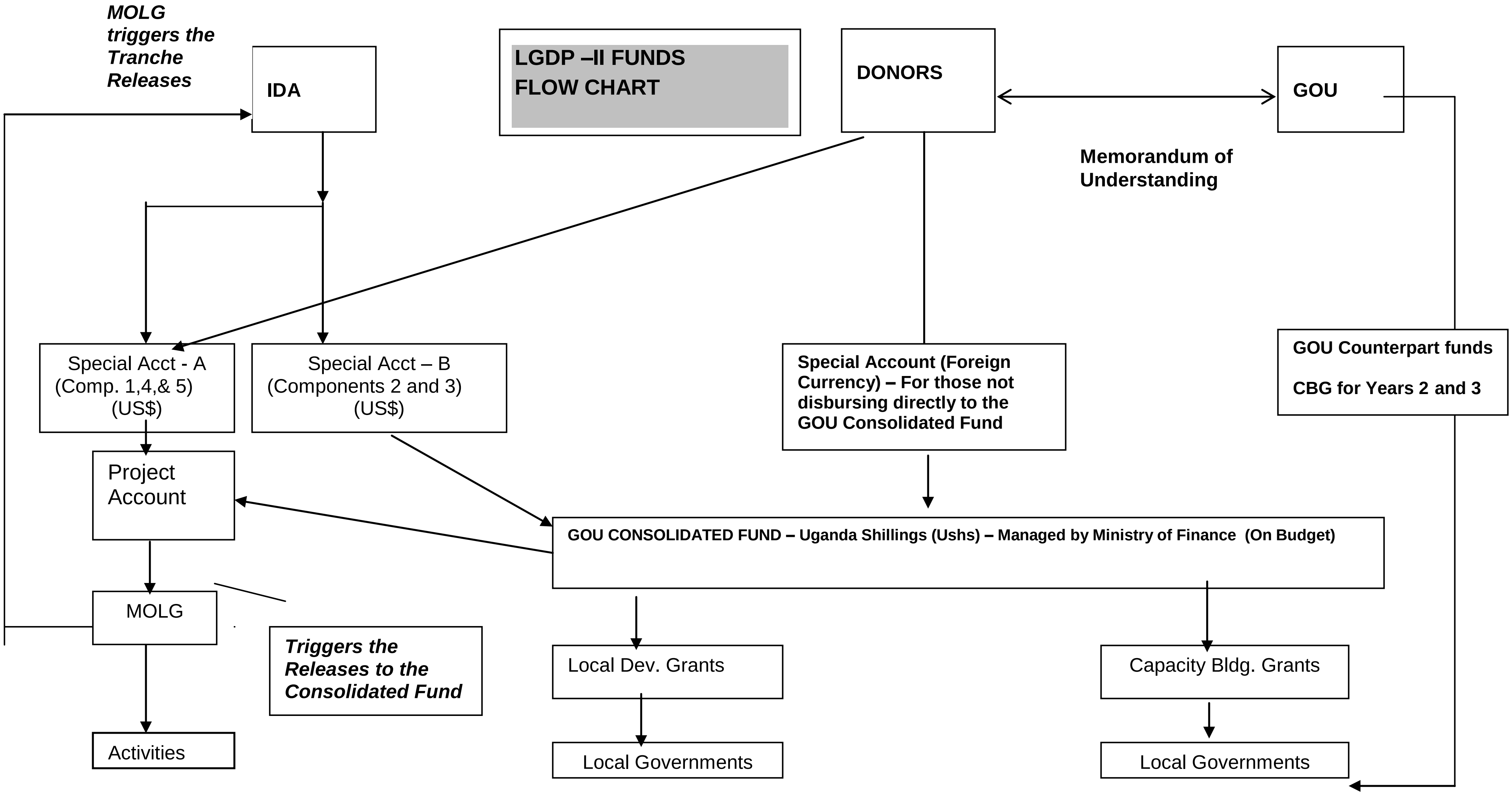
These two dimensions combine to form three main types of SBS funding:

	Earmarked	**Un-earmarked**
Non Traceable	Non-traceable Earmarked SBS	Un-earmarked SBS
Traceable	Traceable Earmarked SBS	

Additionality refers to requirements from the donor that the provision of external funding earmarked to a set of expenditures leads to an increase in total expenditure allocations to those expenditures. Additionality attempts to address the problem of fungibility, which arises because government resources can be substituted for aid resources. If aid finances any activity that the recipient would otherwise have financed itself, the resources that the recipient would have spent on that activity become available to finance something else.

Source: SBSIP Literature Review

Figure 4: Diagram of LGDP Funding Flows in the Context of Mainstream Budgetary Channels



118. Separate project accounts were required at local government level, as described in the operational manual for the LGDP-II: "*... all Local Governments under the program shall also be requested to establish project accounts at their levels. [The] LGs shall replenish the Project Accounts at intervals of not more than 3 months, with sufficient funds to meet the governments' shares of expenditures under the project for the ensuing 3 months, and the funds would be applied only for this purpose.*" [35]

119. For the SBS supporting the LG grant system, the GoU procedures for planning, budgeting, accounting, procurement and monitoring were applied, although specific reporting and M&E systems for the LDG and CB grants were developed for these specific grants. In addition, a number of project specific features, such as value for the money audits, programme midterm reviews, technical audits, etc. were applied.

120. For the project components, parallel accounting and M&E systems have been applied as the government systems did not provide modules for handling of project accounts. The WB procurement regulations were used for goods/services which required international competitive bidding were applied for the project components.

Mechanisms for Policy Dialogue and Conditionality

121. The *dialogue* around the LGDP-I initially focused on the getting the transfer and assessment mechanisms working, not the overall decentralisation policy. This dialogue was largely led by the World Bank through periodic missions and not the Donor Sub-Group on Decentralisation. This changed significantly with the LGDP-II in 2003, with efforts to build sector wide processes through the establishment of the Joint Annual Review of Decentralisation (JARD), the Decentralisation Strategic Framework and the LGSIP. Donors initially coordinated their support through the reviews of the LGDP-II and once the JARD process and the D-SWG became operational, these fora became the main vehicles for current coordination.

122. Whilst these became important instruments and fora for overall sector dialogue, they did not form the basis of dialogue and conditions for disbursement of SBS. In fact specific dialogue on LGDP remained led by the World Bank, and related to sustainability - such as the legal framework for LG taxation. Conditions were put in place prior to the commencement of LGDP II included: i) strengthening of the PFM at CG level in MoLG/PCU with new reporting systems, ii) elaboration by GoU of a document for outlining the process for new district creation, iii) requirements that an audit strategy for LLGs is put in place and subsequently releases covered issues such as proper accountability and satisfactory move on the legal framework for Local Governments revenue mobilisation, i.e. the Property Rating Bill, as the tax issues have been the most burning issues related to the sustainability of the investments supported by the grant facility and the overall system of decentralised governance.

123. The Local Development Grant was itself highly conditional for local governments – not on how the money should be spent, but in terms of the minimum conditions for accessing the local development grant, and performance measures, which determined whether the local governments were entitled to the reward of an increased LDG allocation for the subsequent year.

124. The minimum conditions and performance measures were assessed during the Annual Performance Assessment of Local Governments. The Assessment involved an external assessment of higher local governments, and an internal assessment of lower local governments, combined with sample quality assurance from the national assessment teams. The assessment was funded from the project component of LGDP. Initially it was contracted and managed by the

[35] Operational Manual of the LGDP-II. Ministry of Local Government.

Programme Management Unit of the project under LGDP-I. Under LGDP-II an attempt to mainstream it within the Ministry of Local Government was made. The Assessment process was led by the Inspectorate Department, and supported by a privately contracted firm.

Links to Capacity building and Technical Assistance

125. At the time of introduction of LGDP it was considered that the MOLG did not have the capacity to administer the transfer system and carry out its core functions at the same time. A Project Management Unit (PMU) was therefore established to buy in capacity to MoLG with 10-15 dedicated staff from the onset. Once the LDG and CBG transfer systems were established, the approach was changed to a Project Coordination Unit (PCU), with a gradual mainstreaming of functions with the core MoLG functions from 2003 and onwards.

126. Aside from this project specific capacity in the PMU/PCU, TA and capacity building support was provided for in the LGDP design through a mixture of project support to activities at the central level and on-budget capacity building grants to LGs through the Treasury system, funded by SBS. Capacity Building Grants were discretionary. Local governments could use them to address their own specific capacity building needs, funded via SBS. Under the LGDP-I there was no specific TA attached to LGs. However, the PMU and MoLG staff, as well as short-term TAs provided ongoing backstopping support to LGs. This included facilitating LGs to rejuvenate the HRM/D function in LGs; Capacity Building needs assessments; planning and procurement; and delivery of monitoring and evaluation.

127. Although the LGDP-II had a strong element of project based TA/CB assistance within the project design, it was also supported by other linked programmes such as the DFID supported Decentralisation Support Program (DSP) earlier on, the Danida support to decentralisation, bilateral DP support to specific districts and other initiatives.

128. An important development supported by LGDP-II was the elaboration of LG CB development strategy, a CB coordination unit, hosted in MoLG, and a current coordination of the ongoing support to LG CB. The Capacity Building Grant system was made more sophisticated as a result of concerns over the quality of training being provided. Standardised training modules were developed and a system of accredited of service providers was introduced, which LGs were required to use. A clear investment menu to ensure that most of the funds were used on core CB areas was elaborated.

129. The CB support has been increasingly coordinated under the D-SWG and the LG CB unit. It is important to mention the content of the TA and capacity building financed via project support was flexible. For example, following policy announcements on local revenue, the activities supported provided under the revenue mobilisation component were adjusted.

Links to Other Modalities

130. Initially LGDP was a stand-alone project without any links to other aid modalities. This changed with the introduction of the JARD and LGSIP processes under LGDP-II, which helped improve the coordination of donor support. This meant the mechanisms for harmonisation of support have gradually moved from informal DP coordination (exchange of information), to informal DP-GoU coordination and later towards a more formal coordination under the umbrella of the work in the D-SWG. More recently it has also linked to the overall Public Sector Management SWG to ensure that the decentralisation reforms are coordinated with those in the Ministry of Public Service, Office of the Prime Minister, National Planning Authority, Public Service Commission, etc.

131. There were few explicit links of LGDP to General Budget Support, although The LGDP promoted inclusion of core issues on decentralisation in the PRSCs, and ensured a good link between the decentralisation reform process and the overall PFM reform under the FINMAP, previously the EFMPI and EFMPII. In addition, members of the World Bank Task Teams for the

LGDP also took part in the PRSC dialogue. The case was similar for some members of the Donor Sub-Group on Decentralisation.

3.2 Derogations from Country Policies, Systems and Processes

SQ2.2: To what extent have SBS inputs derogated from country policies, systems and processes, and are these a result of country specific concerns and/or headquarter requirements?

132. The LGDP design principle was to support development of national systems for planning, fund allocation, investment management and accountability. This principle was, to a large extent, complied with during implementation, particularly at the local level, where local planning, budgeting, accounting, auditing and procurement systems were applied and supported. Concerning the larger part of the programme (grants to LGs), funds were routed through the treasury system using GoU procedures, whereas for the central CB support, a direct funding channel to the PCU/MoLG was applied. CB support to LGs was demand driven allowing LGs to address their own prioritized needs.

133. At the central government level the LGDP had the typical derogations from government procurement systems as seen in most WB supported projects, whereby the WBs approval procedures for procurement over and above certain ceilings were applied, in this case for procurement with international bidding. A PCU was also established to manage the grant system and the institutional support to the centre. It used some extra project specific M&E modalities while the overall M&E system for LGs was being supported through one of the components and a special accounting system for the handling of the project as the GoU IFMIS did not yet cover project modules and the PAF reporting formats did not generate all the needed information on activities and outputs required under the LGDP scheme. This enabled MoLG to provide the DPs with good reliable records of input, activities and outputs of the support throughout the project implementation.

134. The government was able to avoid World Bank procurement and audit procedures for expenditures funded from the grants used by local governments by stating that the programme was procuring a grant from the government of Uganda, and not the specific investments implemented by LGs. This meant that the World Bank only had to verify that grants had been transferred to local governments. The requirements for separate bank accounts at LGs were consistent with the original requirements for conditional grants, but reporting processes needed to be developed, as no government procedures existed at that time that would provide adequate accountability[36]. The Annual Assessment process was also a new system established by the programme – however, the whole motivation behind the programme was to introduce and test a system for decentralised investment financing. At the time of project design, no government system existed.

135. On management side of the LGDP, there was a gradual mainstreaming of the functions of the LGDP-I project management unit and the project coordination unit in LGDP-II into the day-to-day operations of the MoLG main structure. During the entire period from 2000-2007, the project support referred to the top management of MoLG and there was an increasing ownership and control from the Ministry. The project operations were strongly facilitated by the PMU in LGDP-I and the PCU in the LGDP-II – one of the reasons believed to be crucial for the strong implementation of the programme[37]. MoLG had a strong ownership, involvement and management

[36] Although the MFPED did soon after develop a reporting system for PAF conditional grants, which the LGDP did not use.

[37] See e.g. MTR: *Ministry of Local Government: Programme Review of the Local Government Development Programme*, Volume 1, Main Report, Feb. 2002 and the World Bank (2008): *Implementation and Completion Results Report* (2008).

control of the LGDP and this increased gradually from 2000 to 2007. However, this transition from a project management unit to a project coordination unit to support the implementation was not an easy process for either the GoU staff or project officers and has created some frictions on the division of tasks and responsibilities with a decreasing number of project staff to support the core operations.

136. The project systems and procedures were generally seen as smooth and efficient by the Government officials, although they perceived the WB procurement procedures as rather cumbersome and time consuming. Contrary to this, other stakeholders perceived these as extra safeguards to ensure quality in the procurement process.

137. The views from the DP HQs on the LGDP varied. Although the modality showed its benefits, it was still seen as a project in some of the HQs, and DPs with commitments to move towards pure GBS or SBS had problems in supporting the system due to their own procedures.[38]

138. Under FDS, there was a wish to have all development grants transferred and managed by LGs following the LGDP modality. The GoU failed to achieve that, partly due to the fact that the programme was seen as a "project" and sectors did not wish to loosen their control of the development funds and wanted to ensure that their targets and indicators were achieved. Therefore, some of the problems faced before FDS, i.e. disjointed work plans of development activities, remained after the LGDP. Another challenge was the fact that the unconditional grant was small and the local revenues reduced over time, and when sectors were budgeting for O & M, they did not take into account investments under LGDP as they did not get sufficient information on these. The MoLG also insisted on getting separate work plans and reports for LGDP which were not integrated with the sectors. As a result, there was a risk of having duplication of investments and lack of coordination of the operational and maintenance implications.

3.3 The Effects of SBS on the Quality of Partnership in the Sector

SQ2.3: Has SBS contributed positively to the quality of partnership and reduction in transaction costs between development partners, the recipient government and civil society?

139. In several aspects the LGDP was very successful in the area of promoting partnership. Harmonisation and alignment of aid has improved in the area of decentralisation over the past 10 years and the LGDP has, with a great level of certainty, been one of the major contributing activities.

140. LGDP demonstrated that on-budget funding flows and demand driven Capacity Building approaches can work efficiently when the right incentives are put in place. This led to the use of LGDP modalities by other donors, reducing the fragmentation of donor support to decentralised services, and triggering a shift away from area based programmes.

141. LGDP-II, which followed LGDP-I from 2003 also provided a vehicle around which the DPs could work together at the national level. It also supported important tools for improved coordination and reviews, particularly JARDs in 2004, 2005, 2006 and 2007, a process now supported through the LGSIP basket. It provided important input to the development of the Decentralisation Policy Strategic Framework (DPSF, 2006) and the LGSIP 2006-2016. When the LGSIP was elaborated in 2006, supported by the JARD reviews and financed by LGDP, , it provided an important means to ensure a consistent approach to the sector. Even when the World Bank decided to use project finance in the coming LGMSD project, whilst other DPs decided to use a basket funding. The important principle was that each DP was financing different portions of the

[38] Information provided by the World Bank Management Team.

same overall sector investment plan. Despite this there have often been tensions between the World Bank and other members of the Donor Sub-Group on decentralisation, as the World Bank, according to the other DPs, does not always work through the coordination structures established.

142. The LGDP greatly contributed to a reduction in the transaction costs of the LGs as multiple area-based programmes with different PFM modalities have been exchanged by a GoU owned system with a great level of stability, predictability and common planning, budgeting and reporting systems. The performance-based allocation has contributed to a stronger sense of legal compliance and fruitful competition amongst LGs.

143. However, there are caveats to this overall conclusion. The approach has been less successful in terms of building partnerships with the sectors (line agencies). Coordination with the larger sectors, for example Education, Health, has been problematic since inception of the LGDP. The links between the decentralisation reforms and the sector reforms and the overall public sector reform process are still rather weak. Other sectors have not learned lessons from the LGDP performance grant system. In addition, development partners have supported different stances with respect to decentralisation in different sector donor groups, and there is very little coordination across donor groups, with donors preferring to work in sectoral silos.

144. Some of the DPs still maintain a rather specific project approach within the decentralisation sector, although this is now more obviously reflected in the overall sector investment plan.

4. Sector Budget Support and its Effects in Practice

4.1 SBS and its influence on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes

SQ 3.1: What has been the influence of SBS on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes, and what are the constraints faced and lessons learned in practice?

SBS Alignment with and contribution to national policy and planning processes

145. LGDP-I provided support to the GoU's policies, planning, budgetary and monitoring/evaluation systems for local government, which had been established by 1998. The basic rationale of the approach of LGDP-I was to test and promote the LGs' use of the existing decentralisation framework - the laws, regulations, guidelines and administrative structures - and to promote the funding for LG mandatory functions as prescribed in the Constitution, 1995 and the LG Act, 1997 (with amendments).

146. As its scope broadened, LGDP-II further supported the development of a clearer framework and plans for implementing decentralisation, providing technical support to the development of the sector policy framework for decentralisation, DPSF and the elaboration of a comprehensive investment plan, LGSIP.[39] It also supported the development of formal regulations and improved guidelines for the implementation of sector policies and continued the support to planning guidelines and CB.

147. However, whilst the policy framework is clearer, this framework and the associated LGDP and donor dialogue has had little effect on high level policy decisions in the 2000s. It has, however, had a clear positive impact in terms of mitigating some of the negative consequences of these decisions. For example, the effects of the decision to abolish some of the core LG revenue assignments were ameliorated by provision of support to the introduction of compensation schemes and elaboration of alternative sources of revenues. Similar challenges have been observed in the area of proliferation of LGs and tendencies in some areas to re-centralise. The LGDP has played a "fire-fighting" role, whilst the overall policy dialogue has been constrained by a perceived retreat from the original decentralisation policy framework. There is no doubt that these problems would have been worsened without the policy dialogue pursued by the LGDP framework and the technical solutions provided to policy constraints have often mitigated some of the challenges.

148. The LGDP has had little direct effect on the national budget process with respect to local governments, although it has supported the implementation of the FDS. This has been left to the MFPED and LGFC to coordinate, and had little direct attention from the decentralisation dialogue, or TA and capacity building supported by LGDP.

SBS Alignment with and contribution to national Monitoring and Evaluation Processes

149. In addition to supporting a clearer policy framework, LGDP-II helped establish review processes for the implementation of those polices and plans, through the Joint Annual Review of Decentralisation and the comprehensive common result matrix for monitoring progress.

150. Monitoring and Evaluation of local governments' performance is one area where both phases of LGDP have been active. The Annual Performance Assessment process, and grant specific reporting tools for the monitoring of the LGDP grant utilisation were established from the

[39] World Bank (2008): Implementation Completion Report, 2008 and interviews with core stakeholders.

outset. The annual performance assessments, supported by LGDP, have successfully measured the *institutional performance* of LGs in a robust and standardised manner and have been a very useful tool in promoting LG performance, identifying gaps in institutional performance and in tracking trends in performance over time.

151. LGDP-I also supported the development of a comprehensive local government M&E system LOGICs, refined in LOGICs+ under LGDP-II. The impact of the LOGICs+ is still to be seen, whilst sectors have their own parallel M&E systems which have been more operational. Databases on LG revenues and expenditures are still being pursued in various agencies such as MoLG, LGFC, several departments of MoFPED without sufficient coordination and coverage. Thus, multiple M&E systems exist and there is a lack of MDA coordination. A related point is that sector ministries complain they do not know what LDG money has been spent in their sectors.

152. After almost a decade of support to various systems, it is remarkable to note that it is still not possible to get a full picture of the LG actual expenditure and revenues, let alone services provided by local government. Such information would have made it far easier to ensure a more rational evolution of the financing of local governments, even in the context of the withdrawal of revenue sources.

Box 9: The Problem of Cross Sectoral Coordination of the Donor Dialogue

Underlying the problem of weak cross-sectoral coordination in budgeting and M&E has been a lack of coherence in the dialogue by donors across sectors. Here are two examples:

- The leadership in the Education Sector has been opposed to the flexibility in the recurrent budget under FDS, on the grounds that this threatens resources in the education sector. The Education donors did not challenge this position of the Education Sector Leadership, even though the representatives in the D-SWG were supportive of the FDS, and this was explicit government policy.
- Whilst donors were supporting in investments in the HMIS and EMIS, the LGDP started investing in the LoGICS system. There was little or no effort on the donor side to ensure that these investments were complementary, and they ended up competing.

It has been easier for donor groups in Decentralisation, Education, Health and other sectors to maintain silo mentalities, rather than ensure coherence in the dialogue across sectors. This further reinforces the tendency for central government sectors were able to operate independently. This has important negative implications on systems at the local government level which have to deal first hand with the incoherence of the centre.

SBS alignment with and contribution to Local Gov't planning, budgeting and monitoring

153. The LGDP project components have been focused more on local government planning than on budgeting. This has involved supporting development of participatory planning guidelines for all tiers of LGs (HLG and LLGs) and physical urban planning guidelines, which have been adopted by the GoU and coherently rolled-out to all LGs in Uganda. LGDP also ensured that all funding of the LGDP was included in a bottom-up planning process, development plans, LG MTEF and fully integrated in the Governments' overall MTEF, budget and reporting systems.

154. In the area of budgeting, there have been greater challenges as the coordination and support, and in particular FDS related budgeting systems. Whilst LGDP focused on providing technical support to the planning process, the MFPED led support to budgeting through its EFMPII and FINMAP projects. Later USAID supported the budgeting process in many local governments. There has been insufficient coordination between MoLG and MoFPED and insufficient support and focus from the DPs to the roll out of the FDS, which had the potential to improve coherence in budgeting. Under LGDP, training modules on planning and budgeting were prepared, which were consistent with the FDS. These modules have been provided to local government, through the demand-driven capacity building grant.

155. Meanwhile, the LGDP incentivised adherence to the legal requirements of planning and budgeting through the annual assessment process. The Table below shows the minimum conditions relating to planning and budgeting[40]:

Table 4: Minimum Conditions Relating to Planning and Budgeting

Minimum Condition	Information Source and Assessment Procedures
1. Three Year, Rolled Development Plan approved by council in place as per LGA section 35	From the Planning Unit obtain copy of the Development Plan of the current FY and ascertain whether: • It was rolled; • The Chairman and CAO endorsed it. Record dates From the Clerk to Council review minutes of council to find out whether: • There is a Council resolution to approve the Development Plan; and • Record the dates and minute.
2. Functional District/Municipal Technical Planning Committee as per LGA section 36	From the Planning Unit obtain and review minutes of TPC meetings of the previous FY and first quarter of the current FY, to find out whether: • The TPC meets as required (at least monthly)[2]; • There is appropriate attendance of TPC meetings (two thirds of HODs and technical persons co-opted by CAO), • Issues discussed are relevant (like development issues and programmes, sector conditional grant planning, implementation and monitoring issues, coordination and integration of plans of lower LGs)
3. Linkage between the Development Plan, Budget and Budget Framework Paper (LGA section 77) – *Financial interpretation of the development plan*	From the CFO/Treasurer, obtain and review estimates of revenue and Expenditures for the current FY to find out whether: • The budget was **laid before** the district/municipal council; • The budget was prepared as per the guidelines in Financial and Accounting Regulations like reflection of revenue to be collected or received by the LG and appropriated for each year. • The budget is linked to the approved three-year development plan (like inclusion of capital budget and recurrent costs for priority investments in the development plan) From the Clerk to Council, review minutes of district/municipal executive committee to find out whether • They endorsed the Budget Framework Paper Review District/Municipal Development Plan and BFP to: • Establish linkage and consistence in regard to procedures and content (priorities, allocations and strategies).

156. In addition, the procedures around the LDG required participatory planning over the choice of investments. This, however, has remained specific to the grant. The FDS intended to apply LDG modalities to sector grants, however there was resistance within some line ministries, as they cannot predict, *ex ante*, spending at the local level.

157. LGDP invested heavily in creating LoGICS, a comprehensive local government M&E system. However, it was poorly conceived. The system failed to build on what sectors had already created, and it did nothing that was required of local governments in terms of the legal framework or budgeting and reporting under the FDS. However, LoGICS was very time consuming for LGs to use. This meant that there was little incentive for local governments to use LoGICs, over the sector systems that were already in place. Whilst some of these issues were addressed under LoGICS+, parallel reporting mechanisms have continued and there is still no comprehensive or coordinated reporting and monitoring and evaluation of local governments – whether financial or on service delivery.

158. Nevertheless, as mentioned in Section 2, the planning systems of LG have improved in quality over the past decade. The combined support from LGDP in terms of promoting strong incentives in the annual assessments where the level of funds is adjusted against LG performance, combined with comprehensive and coherent planning tools and CB support has clearly had an important positive role in these improvements.

[40] In addition to these MCs, the LGDP assessment manual contains a large number of performance measures on the procurement, accounting and audit.

SBS influence on resource allocation

159. Between 2000/01 and 2006/07 SBS underpinned UGX 350bn allocations to the LDG and CBG, with the vast majority being spent on local investments. This amounted to 8% of transfers to local governments, and more significantly 36% of transfers for development expenditure at the local level. This represents a substantial stock of investments at the local level. However, since 2003/04 the LDG has declined in real terms, and relative to total LG transfers. Neither the level of SBS funding, nor the dialogue has not been able to, or been focused on, preventing this trend. Furthermore, the sustainability of these investments is undermined by the erosion of recurrent funding available for their operation and maintenance mentioned in Section 2.2. Nevertheless, it is important to note that the government has taken over the funding of the LDG and CBG and nominal allocations have been maintained from 2007-2008.

160. The LDG and CBG and associated systems were established as a result of the LGDP SBS. *De facto*, almost all other resources available to local governments are earmarked to specific expenditures, which has meant that these grants have been the only major source of discretion available to local governments. The relative significance of this discretion has been undermined by the increase in sector conditional grants, however.

161. The allocation principles pursued by the LGDP grant system have been unique and successful, as the LGDP has expanded LG discretion and autonomy enabling them to target local needs, and combined this with the incentives to use a high level of the funding within the national top priority areas. Control on the input side employed by sector-specific grants to LGs have not been necessary as the proper incentives have been in place to target poverty alleviation areas, coupled with stronger monitoring and follow-up. The LGs' use of funds has actually reflected PEAP priorities, many of which are also funded through sectoral development grants – such as schools, water points and clinics[41]. However, the LDG has also funded investments in roads, for example, where there are no sectoral development grants. In addition, there has been a high level of cost efficiency and a high degree of user satisfaction amongst beneficiaries of LDG funded investments.[42] The relative amount of the LDG spent outside the core service delivery areas, on areas such as administration (less than 5 % is used on these purposes), has also decreased during the past 10 years and there has been a strong focus on core service delivery.

162. However, it is important to note here that the recent shift away from sector budget support to funding via the LGSIP has meant that the balance of resource allocation in the sector has shifted towards institutional support provided by the centre, relative to the funding of local investments and demand driven capacity building expenditure by local governments.

Lessons learned

There are four main areas where SBS is likely to have had positive influences on sector performance:

- The LGDP model of providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for local governments to improve planning and budgeting in the areas assessed.
- A LGDP approach with a high level of LG discretion does not need to compromise sector priorities and the overall national planning targets, as LGs have focused their priorities on the national poverty alleviation areas.

[41] Despite these facts, there is resistance from line ministries to move to LGDP modalities, as they cannot predict the exact spending at the local level within each sector as the funds are at the LG discretion with a broad cross-sectoral investment menu.

[42] Ministry of Local Government (2001), MTR from 2001, World Bank (2008) Implementation completion and results report, MoLG (2007) Technical Value for the Money Audit of LGDP II supported districts.

- TA and capacity building – both supply and demand driven – helped build capacity in both planning and budgeting. Meanwhile, the assessment process has helped local governments identify areas where capacity needs upgrading.
- The project support under LGDP has helped the ministry procure TA, which has assisted in the development of a clear policy framework and plans for the sector overall, and helped establish a sectoral review process, leading to greater participation in sector policy issues.
- The Local Development Grant, created as a result of LGDP, has provided crucial discretionary funding for local governments which has enabled local governments provide services in line with local needs. The initial size of the LDG was large enough to make a significant impact on local investments.

However, the LGDP and overall donor support to decentralisation has failed to address coordination problems between institutions and sectors at central government in areas such as budgeting, reporting and monitoring and evaluation. A key manifestation of the failures in coordination is the absence of a clear and comprehensive picture of local government revenues, expenditures and services. There have been two major problems underlying this:

- Inappropriate technical solutions, for example LoGICS, which failed to address immediate local government reporting and monitoring requirements from the centre such as those required under FDS where efforts to build cross-sectoral consensus had been made.
- The failure of the donors to work for consensus across sector donor groups, to ensure that DPs had a consistent line on decentralisation within sectors and support the FDS.

163. It is important to note that the LGSIP, the common results matrix, the JARD and the expanded work in the D-SWG means that there is now an opportunity to review and monitor the sector activities and a better chance to address challenges in a coherent manner. However, this needs to be supported by improved coordination amongst donor groups.

164. However, the shift away from SBS towards institutional support under LGSIP since 2007 has probably shifted the balance of resource allocation too far in the direction of policy development and supply driven capacity development support, and away from local service delivery and demand driven capacity building. Finally, it is important to note that a failure to address the financing of local governments holistically across sectors can have a detrimental effect on the overall effectiveness of those resources.

4.2 SBS and its Influence on Sector Procurement, Expenditure, Accounting and Audit Processes

SQ3.2	**What has been the influence of SBS on Procurement, Expenditure Control, Accounting and Audit Systems at the Sector Level, and what are the constraints faced and lessons learned in practice?**

165. The main contribution to procurement, expenditure, accounting and audit processes have been at local government level, as that is the direction in which SBS has flowed. Financial support to LGDP at central government has been through traditional project arrangements, for example using World Bank procurement procedures[43]. These have generally not caused major problems for the GoU at central level[44]. The use of SBS to LGDP, alongside SBS and GBS funding the expansion of sector conditional grants, has meant that the focus of central government institutions

[43]These are largely consistent with the GoU procedures, except for international bidding which required WB approval of ToRs and no-objections to certain contract awards.
[44] However, the WB procedures for international bidding have caused some delays within few consultancies.

(whether MoLG, the MFPED, Auditor General) has been on strengthening local government systems.

166. As mentioned in Section 3, the full amounts of SBS funds have been disbursed to the treasury during the project time-frame in a predictable manner and in the full expected amounts. The clear, transparent formula based grant schemes – LDGs and CBGs –also assisted the LGDP in improving the predictability of external funding to the sector. The merging of the previous multiple funding schemes for LG investments through the area-based programmes into LGDP was important.

167. The timeliness of transfers to local governments has improved over time. The transfers from LGDP where ring fenced and protected from any budget cuts with releases to LGs based on accountability and acquittals of quarterly releases. Therefore, the budget release performances have been in the tune of more than 95 % of budgeted transfers every FY increasing to 100 % in FY 2007/08.

168. However, there have been some delays noted in disbursements to local governments within the FY, leading to challenges at the local level in terms of implementation of projects and problems in managing the funds in the last quarter of the year. However, a large part of these in-year delays have also been attributed to late LG reporting and accountability for previous releases, and not the predictability of SBS disbursements. The strict enforcement of these accountability requirements is, in fact, a positive feature. Some delays have been the result of cash flow challenges at the CG level, however. Several reports (MTRs, and consultancy studies), supported by the recent beneficiary survey confirms that LGs and communities have been pleased with the procedures for flow of funds through the LG system.[45]

169. LGDP SBS funding used GoU procedures for procurement, accounting and audit at the LG level. The project component of LGDP supported further development of these GoU procedures through support to development of accounting regulations, procurement legislation and regulations for LG procurement and significant TA to roll-out of guidelines and training. LGDP also supported the Office of the Auditor General to strengthen the audit of LLGs and the programme has facilitated a greater level of attention to the importance of auditing the LLGs accounts along the deepening of the decentralisation process. LGDP also provided significant inputs of elaboration of legal framework for LG revenue mobilisation, TA and CB support in LG revenue management and development of guidelines and handbooks within this area and to MoLG and LGFC in expanding its advisory and mentoring roles vis-à-vis the LGs. LGDP was seen by all stakeholders as the major instrument to train accountants, procurement officers and auditors during the last decade and the CB support rendered is seen as relative efficient and effective.

170. The assessment of LGs performance and links to the grant allocation again provided strong incentives for LGs to improve the basic PFM systems reflected in improvements in timeliness of accounts, establishment of internal audit systems. The Minimum Conditions, associated with procurement, accounting and audit are set out below[46]:

Table 5: Minimum Conditions Relating to Procurement, Accounting and Audit

Minimum Condition	Information Source and Assessment Procedures
Annual financial statements (Draft Final	• From the CFO, obtain and review a copy of the annual financial statements (Draft Final Accounts for the previous FY).

[45] UBOS 2007, op. cit. p. 40 and p. 49.

[46] In addition to these MCs, the LGDP assessment manual contains a large number of performance measures on the procurement, accounting and audit.

Accounts) for the previous FY produced as per LGA section 86[47]	• Establish whether the Books of accounts and the Trial Balance agree with each other. Establish whether the annual financial statements conform to the prescribed formats in the LG financial and accounting Manual 2007.
Internal Audit Function working in accordance with the LGA section 91	• From the CIA, obtain and review quarterly internal audit reports for the previous FY of District/Municipal Council • From the Clerk to Council, establish whether quarterly audit reports are submitted to the Council with a copy to PAC • Discuss with the Chairperson of Council to find out whether s/he receives quarterly Internal Audit Reports of District/Municipal Council from CIA
Three year Local Revenue Enhancement Plan (LREP) and Budget approved by the LG council.	• From the CFO, obtain a copy of the three year revenue enhancement plan • Review the plan to ascertain whether it was approved by the council. • Review the current LG budget to ascertain whether revenue enhancement strategies in the LREP are covered with specific allocations.

171. Prior to the LGDP support to training and CB on PFM there we no professional accountants with ACCA qualifications in LGs and only three qualified accounts technicians. By December 2007, there were 41 professional accountants with ACCA qualification and 391 qualified accounts technicians in LGs. LGDP has provided significant training under the supply driven support –i.e. support to all core positions in accounting, procurement and auditing as well as offering of support under the demand-driven CB grant system where high quality training modules and training was provided. Before the LGDP started, only 10 LGs were able to produce final accounts whereas in 2007 more than 95 % of the LGs were able to do this in a timely manner.

172. Whilst a lot of progress has been made on financial management capacity, limited progress has been made in improving the reliability of the government budget despite being a key weakness identified in PFM assessments of the sector. Whilst “allocation performance” is a performance measure in the Annual Performance Assessment, performance in budget realisation and predictability could be better formulated, and was not given due priority. Related to this, cash management is not addressed in the assessment, and has not been a priority in capacity building exercises either.

173. There are also signs that investments funded via the LDG enjoyed lower unit costs over time and relative to those funded by conditional grants. The LG costs of similar investments from 2000-2003 funded by the LDG was significant lower than investments supported by other modalities, and the low costs of project investments were maintained in LGDP-II from 2003-07. There was a high degree of satisfaction with the investments provided through this modality, although the quality remained a challenge in some cases. The LGDP funded investments proved to be cheaper per unit than investments from other grant schemes, such as the school facility grants[48]. It is plausible to conclude that the higher degree of monitoring, involvement of LGs and communities, capacity building and incentives, in all phases of the project cycle contributed to these lowering costs.

174. The dialogue associated with LGDP has, however, not been able to halt some overall policy decisions and actions which have come from outside the sector, and have had detrimental effects. Examples of these are the: i) abolition of graduated tax in 2005 without a strategy or plan in place for compensation and elaboration of alternative sources, ii) restructuring of LG administrations from

[47] The assessment team should also check whether the books of accounts (cash book, ledgers, vote books, journals, abstracts and asset registers) are maintained as per the FAR (posted up to-date, balanced and previous financial year books closed).
[48] World Bank, 2004.

2006 without sufficient funds for implementation of the new structures[49], iii) insufficient and delayed implementation of the FDS, which should have encompassed a merger an streamlining of the multiple conditional grants[50], and iv) proliferation of HLGs[51]. They have undermined the capacity developed and have created significant problems at the local level in ensuring sufficient funding for core functions and reduced the LG operational discretion to adjust expenditures to local needs. These have, therefore, constrained the impact of these improvements on the overall budget execution and operational efficiency at the LG level[52].

175. Although the LGDP, through the flexibility in the design, tried to mitigate these challenges, and to some extent succeeded in reducing the negative impact through measures such as support to elaboration of compensation schemes and new LG tax assignments, it has not been possible in the short to medium term fully to resolve the problems with the overall LG funding gaps. Hence, although the LGDP has had a positive impact, it is has not been sufficient to counterbalance some of the core funding challenges for the system of local governments in Uganda. Through the support to JARD, the support to establishment of the D-SWG, the influence on the PRSC –dialogue, dialogue with core stakeholders, the LGDP has pursued to address these challenges – an effort which will continue under the dialogue on the LGSIP and in the D-SWG.

Lessons learned

176. There are five main areas where SBS is likely to have had positive influences on sector outcomes:

- The LGDP model of providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for local governments to improve procurement and accounting in the areas assessed.
- TA and capacity building – both supply and demand driven – helped build capacity inaccounting, procurement and audit. Meanwhile the assessment process has helped local governments identify areas where capacity needs upgrading.
- The project support under LGDP has helped the ministry procure TA and capacity building support to develop procurement accounting and audit systems, and this support has been flexible enough to respond to needs.
- The involvement of communities in the entire project cycle of investments funded from Local Development Grant has been positive, and it is plausible to conclude that this has been an important factor in lower unit costs observed in those investments.
- The dialogue and JARD framework, alongside the flexibility of TA and Capacity Building support have been able to mitigate some of the negative effects of policy decisions from outside the sector.

177. The TA/Capacity building support, and assessment framework, could have been better targeted to key weaknesses in PFM, such as e.g. cash management and strong weight on the overall budget predictability.

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[49] Less than 65 % of the new structures are funded, although this has improved from the original level of about 40 %.

[50] The LMs managed to mobilise sufficient resistance against implementation of important components of the FDS, such as merger of the grants, reformed allocation criteria and better system for flexibility across the transfers.

[51] The number of districts has increased from 56 to 80 within less than 5 years, and the number is expected to continue to increase. Similar trends have been observed within the urban governments. The extra administrative costs of this are significant leaving limited funds for core administration and service delivery in each unit and per capita.

[52] This is documented in numerous reports, see e.g.: Danida (2008): "*Inception Review – Danida Support to Public Sector Management Reforms in Uganda",* March 3 – April 4, 2008 or JBSO: "*JBSO Partners' Observations from PFM Mission"* – Public Financial Management Reform- Annex on Decentralisation by Brooke, Brumby, Mayes and Steffensen, Status of November 7, 2008.

178. An important lesson here is that, whilst the LGDP has had positive effects on financial management, these effects have not always been sufficient to counterbalance some of the core funding challenges for the system of local governments in Uganda.

4.3 SBS and its Influence on the Capacity of Sector Institutions and Systems for Service Delivery

SQ3.3: What has been the influence of SBS on Sector Institutions, their Capacity and Systems for Service Delivery and what are the constraints faced and lessons learned in practice?

Central Government Capacity

179. At the time of the design of LGDP in 2000, the Ministry of Local Government had general weaknesses in capacity and the PMU ran the LGDP project and administered the transfer system. Meanwhile, TA and capacity building support focused on establishing MoLG capacity. Following the shift to the PCU, all components in LGDP had a component manager from MoLG.MoLG staff was increasingly involved in all functions related to the implementation of the LGDP. There was an increasing level of ownership in the project.[53]

180. Over time, MoLG has been restructured, staffing has been improved and the overall capacity enhanced somewhat. The establishment of the DPSF, JARD and LGSIP, has created new demands on MOLG's capacity. This has meant that MoLG has established a small secretariat to support the coordination of assistance and the implementation of the LGSIP. Capacity for the coordination of capacity building has also improved. The MoLG developed a LG CB strategy and a quality assurance system, including coordination of the supply side of capacity building and donor support; the development of training modules; and accreditation of service providers.

181. However, mainstreaming of functions previously carried out by the LGDP PMU and the Decentralisation Secretariat (supported by Danida up to 2001/02) has been a great challenge. In particular, it has proved difficult to maintain the standard of the Annual Performance Assessment, the credibility of which is important for incentives in the performance grant system. It may have been more appropriate to continue with out-sourcing models for the assessment, with the MoLG component manager in control of the process of outsourcing. There also remains a lack of agreement the role of LGFC versus MoLG on issues such as revenue functions, M&E and budget analysis. It should also be noted that some projects are still using smaller PMUs outside of the Ministry to spearhead reforms, although this has been reduced significantly over the past 10 years.

182. Although improvements have been registered, this means that, even after over a decade of institutional support, the MoLG, there is still a need for continuous CB support to the Ministry throughout the existing LGSIP[54]. Meanwhile, the future challenges in coordination of this important sector under the D-SWG and linked to PSM-WG will be tremendous.

Local Government Systems and Capacity

183. The LGDP design was based on the GoU policies, systems and institutions, but also involved the creation of a new grant mechanism for delivering local government investments in line with this framework. At the local level, all tiers of government were involved and the existing

[53] Based on interviews with MoLG and project staff.

[54] The World Bank it is Project Appraisal documents (2007) to the coming Local Government Management and Service Delivery Project noted that there is still a need for earmarked institutional support to the decentralisation reform process, and the Bank did not opt for a full budget support model, see World Bank (2007): Project Information Document (PID) Appraisal Stage, 2007.

systems and procedures were entirely applied. At the same time, LGDP rendered significant and coherent support to the refinement of these. In the annual LG performance assessment systems, definitions of minimum conditions and performance measures were based on the existing statutory requirements and benchmarks. LGDP developed very few project specific conditions such as co-funding requirements within investments, but these have been replicated in other systems and were continued when the funding was taken over by GoU. The LGDP grants also introduced a provision in the investment grants for so-called "investment servicing costs" which has enabled LGs to ensure funding for planning, appraisal, monitoring and evaluation of projects – an idea now mainstreamed in the overall inter governmental fiscal transfer system (IGTFS) in Uganda. The system for grant flows to LGs was using the established GoU treasury system with regular quarterly instalments based on proper accountability. Additional M&E support was rendered from the project, but this was largely integrated within the existing framework for IGFTs.

184. The transfer systems – LDG and CBG – were acknowledged as the future vehicle for support to LG development investments under the FDS. Whilst the transfers have been completely mainstreamed in the government's budget, the replication of the system in other transfer schemes has been less successful. This has been due to resistance from the LMs and persistent weaknesses in the coordination between the decentralisation sector and line ministries mentioned earlier.

185. The LGDP contributed to an innovative nationwide system of capacity building of LGs. The capacity building grant systems relied heavily on the LGs own needs, elaboration of their own CB plans and management of the entire HR development, with some backstopping support from MoLG and contracted consultants[55]. Meanwhile, the development of standardised training modules and accreditation of service providers helped ensure quality of capacity building purchased by local governments. In addition central government recognised the need for maintenance of some supply driven capacity building, especially when new policies and guidelines and introduced.

186. Most importantly, the support to capacity building was combined with discretionary investment grants to LGs and the annual assessment process. The strong, in-built incentive systems contributed to enhanced LG institutional performance. Although it has been a continuous challenge to up-keep the quality of the assessments, the impact on the LG incentives has been documented in many studies and reviews[56]. The system is highly appreciated at the LG level as well as at the community level.[57] It has created a focus on performance enhancements, accountability, transparency and good governance, introduced a fruitful competition across LGs and identified areas where there is need for additional CB support.

187. However, many of the improvements in institutional capacity have been somehow undermined by events outside the sector, as mentioned in the previous section. Notably, the creation of new districts and the inadequate resources to fund local government structures have put a strain on the capacity of local governments.

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[55] LGs were in charge of the procurement of service providers, and used their own procurement systems

[56] E.g MTRs of LGDP I and II from 2001 (Steffensen, 2001) and 2005 (K2, 2005), PFM assessments in 2004 (Kragh et all, 2004) and independent studies such as Steffensen et al (2004): "*A Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda",* Country Study Uganda, 2004, Tidemand, Steffensen and Ssewankambo (2008): "*Local Service Delivery, Decentralisation and Governance – A Comparative Study of Uganda, Kenya and Tanzania – Education, Health and Agriculture, Sectors*", Country Study Uganda, 2008. Similar results were documented in the final evaluations of the LGDP-II, e.g. in the World Bank (2008), Implementation and Results Report.

[57] UBOS (2007): Beneficiary Assessment, 2007, p. 49.

188. Various reviews have also shown that improvements in capacity of the LGs in the process of planning, approval, procurement, implementation and financial management *are highly correlated* with better efficiency and value for money within the actual provision of services.[58]

Lessons learned

189. There are two main positive lessons:

- SBS and complementary project support successfully helped the establishment of a new government grant system for delivering local investments which was not there previously. This helped operationalise an important element of the government's new decentralisation policy, the decentralisation of the development budget.
- The performance grant model of the LDG, CBG and Annual Performance Assessment, funding by SBS and associated project support, has proved an effective tool in building local government capacity in areas of planning, budgeting and financial management. Key to this has been providing local governments incentives to develop capacity. In addition, as part of the LGDP approach, LGs have elaborated CB needs assessments, CB plans, strengthening their HR departments and been able to be increasingly in charge of their own development through a demand-driven approach to CB.[59]

190. The replication of the system in other sectoral grants has been less successful. Hence, although the investments from LGDP have had allocative efficiency, been cost efficient[60], have supported the decentralisation agenda and policy, been widely appreciated and have contributed to improved incentives, the full potential on impacting the overall IGFTS has not been utilised. Some of the reasons are lack of interactions with the LMs and resistance on their part to merge grants.

191. The LGDP and TA/Capacity building projects linked to LGDP have been less successful at building institutional capacity in the MoLG. This, in part, has been because the incentives to build capacity in the MoLG have been less strong than for local governments, and also the MoLG has had weaker influence than other central ministries. The DPSF, LGSIP, and JARD have created new demands on the MoLG's capacity and the mainstreaming of the management of LGDP into the ministry is generally positive. In retrospect, it may have been better to keep the LGDP assessment fully outsourced, with MoLG more in control of procurement and QA of the assessment process. This would have made it easier to maintain its quality.

192. Again, however, the improvements have been undermined by factors outside the sector, such as the creation of new districts, and inadequate funding of staffing structures.

4.4 The Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector

SQ3.4: What has been the Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector, and what are the constraints faced and lessons learned in practice?

[58] World Bank (2004): "*Implementation Completion Report",* p. 7, 12 and 27
[59] World Bank Institute (2007).
[60] Reviews of unit costs for the same type of investments showed that LGDP funded projects were significantly cheaper that projects funded through other channels: World Bank Project Completion and Results Report, 2004, p. 28.

Ownership

193. From the outset there has been very strong ownership and support to the LGDP approach at all tiers of governance in Uganda. LGDP explicitly supported the new framework for decentralisation. There was already strong ownership of the associated policies, laws and systems within the MoLG, which had spearheaded their development, and also local governments. The annual LG performance assessments are measuring issues which are, to a great extent, already requirements in the existing legal framework and the LGDP is based on the existing statutory requirements on LG performance promoting the existing legal and institutional reform process.

194. Various reviews have shown a great support to the approach from the LGs, which have appreciated the combination of strong incentives to improve performance and larger discretion in the sector allocation of funds.[61] The LGDP has been one of the only grant systems supporting all tiers of LGs and the system has been highly appreciated by the LG staff and politicians. The same is the case at the CG level where MoLG has had a strong ownership in the design and implementation. LGDP supported guidelines and regulations were either developed or supervised by the responsible departments in MOLG and they are aligned and strongly owned by the GoU.

195. There are only few areas where the requirements have been project specific and derogated from GoU procedures. Amongst those areas have been the requirements at the CG level to use World Bank compliant procurement procedures, i.e. requirements to use the ceilings and approval procedures within the World Bank procurement guidelines. Project specific M&E systems for operation of the project have also been applied from the onset of the project in 2000 and are still being used, although both the project coordination unit and the core MoLG have been used to these and found them useful. These did not appear to affect ownership adversely. The gradual mainstreaming of the project management functions from a project management unit under the MoLG to a project coordination unit with gradual transfer of tasks to MoLG has proved to further foster ownership, although it has not been a straightforward and easy process[62].

196. Other indications of the increased ownership are the fact that the system is strongly supported in the GoU´s Fiscal Decentralisation Strategy and that the GoU from 2006/07 has decided to take over the full funding of the development and CB grants.

Incentives

The LGDP has definitely established LGs incentives to improve performance within core areas of PFM and good governance. This has been documented in numerous reviews and consultancy reports as well as in project completion reports and assessments. The combination of the local development grant, capacity building grants and an annual assessment has promoted institutional improvements. The programme has also strengthened upwards and downwards accountability (as many measures promoted involvement of beneficiaries and communities, transparency etc.), competition and transparency. Results have been published and have prompted a useful dialogue on how to improve performance and competition across LGs. It is clear that the incentives in the performance-based grant system are dependent on a high credibility in the annual assessment of LG performance. As mentioned in the previous section, this has been more difficult to maintain given the mainstreaming of this function.

197. The system has supported a number of technical tools which directly and indirectly have promoted improved accountability such as public notices of the grant allocation and use of grants,

[61] MTRs from 2001 and 2004 and World Bank Completion Report from 2008 as well as technical audits (2007) and beneficiaries studies (2007).

[62] This is in sharp contrast to the experiences from some countries with “extreme” solutions – either through full mainstreaming from day one or establishment of specific project offices outside the control of the Ministry with limited links to the day-to-day business in the core government operations.

project signs, disclosure of the results from the national assessments of LG performance, numerous indicators in the assessment system promoting LG openness and involvement of citizens in all phases of the PFM and project cycle, including establishment of project implementation/monitoring committees at the project level.

Accountability

198. There is anecdotal evidence that the minimum conditions and performance measures in the LGDP have promoted political accountability and strengthened the dialogue between LG staff and politicians – as there is now a strong standardised measurement tool to apply. The involvement of communities in all elements of the project management cycle for local investments is also likely to have strengthened local accountability. About 80 % of the households in a recent comprehensive user survey were moderately to highly satisfied with the quality of service provided through the LGDP projects[63] and the impression of the citizens was clearly that it has enhanced the LG capacity see below:

Box 10: Main Findings from the Assessment of the Beneficiary Participation and Accountability under the LGDP II

The beneficiary assessments generally concluded that LGDP had had a positive impact on the LGs capacity to involve citizens, to organise meetings and ensure proper budgeting, planning and accountability. It revealed that:

- 96 % of the respondents at the HLG and LG levels benefited from the training offered by LGDP-II;
- 2/3 of the communities was of the opinion that the capacity of local councils had improved;
- 67 % of the citizens stated that there were involved in decision-making on the LGDP-II projects;
- 50 % of the respondents have at least one member of their household benefiting from the LGDP-II facility
- The majority of the citizens were satisfied with the management principles of the LGDP-II and found that it has improved their involvement.

UBOS, 2007. Based on 1500 households of which 1485 was interviewed.

199. However, the fact there is no integrated reporting on local investments and services provided at the local government level means that local governments are not as accountable as they could have been to their politicians and citizens.

Lessons learned

200. Overall, the LGDP has had a positive impact on ownership, incentives and accountability in the sector. This is despite the fact that the LGDP grants only constitute 5-10 % of the total funding of LG services. The core lessons are as follows:

- Amongst the core reasons for strong ownership and the great support behind the design principles was the fact that the system uses and supports the application of GoU systems and procedures (with very minor derogations). The LGDP was designed explicitly to put into operation a local government system that already was strongly owned.
- The system for delivering local investments required that all levels of local governments were involved and that communities were also involved. This helped ensure that local

[63] World Bank (2008) op. cit and UBOS (2007) Beneficiary Assessment, p. 57.

investments were delivered in a more transparent and accountable manner than otherwise would have been the case.

- At the core of the approach was the incentive framework linking qualification to an investment grant to adherence to the local government systems set out in the legal framework. It was in local governments' interests to adhere to the law, and deliver investments in a participatory and transparent manner. This further reinforced understanding and ownership of the legal framework, and accountability in local governments and the wish to use the capacity building support more efficiently.

201. Meanwhile efforts at mainstreaming, although not without problems, represent an important effort in ensuring that the grant system established by LGDP is sustainable over the long term. The gradual mainstreaming of the project management functions from a project management unit under the MoLG to a project coordination unit with gradual transfer of tasks to MoLG has proved to be a good practices, although not a straightforward and easy process. This is in sharp contrast to the experiences from some countries with "extreme" solutions – either through full mainstreaming from day one or establishment of specific project offices outside the control of the Ministry of Local Government with limited links to the day-to-day business in the core government operations

202. The major failure has been the inability for the benefits of the LGDP approach to be introduced into the overall intergovernmental fiscal transfer system. Thus, whilst the investments from LGDP have had allocative efficiency, been cost efficient[64], have supported the decentralisation agenda and policy, been widely appreciated and have contributed to improved incentives, the full potential across the entire local government system has not been realised.

[64] Reviews of unit costs for the same type of investments showed that LGDP funded projects were significantly cheaper that projects funded through other channels: World Bank Project Completion and Results Report, 2004, p. 28.

5. The Effectiveness of SBS and the Conditions for Success

5.1 The Main Outputs of SBS

SQ4.1: What are the main contributions that SBS has made to the improvement of sector policy processes, public financial management, sector institutions, service delivery systems and accountability?

203. The main outputs of LGDP can be grouped into three main areas:

- First, the LGDP supported the piloting and establishment of a new performance-based grant system, which provided funding for investment in infrastructure in core LG service delivery areas in an increasingly cost effective manner over time and relative to other grants. It has been one of the important vehicles to promote local planning and infrastructure delivery. The LDGP also provided a framework for donor financing of local investments and donors have moved away from area based funding to the provision of SBS via LGDP. LGDP contributed to the expansion of local infrastructure and service delivery facilities. From 2000-2007, 8,204 and 12,790 projects respectively were completed using the local development grant under the two phases of LGDP and most of these within Education, Roads and Drainage, Health and Water and Sanitation. The system has been highly appreciated by all – from the community groups, LGs and CG levels and has been taken over by GoU funding arrangements under the MTEF.
- Second, the system was a major contributor to strengthening of Local Government institutional capacity, procedures and systems in areas such as planning and financial management. This was achieved through establishing strong incentives for building capacity and strengthening performance, through the Annual Performance Assessment as the basis for determining eligibility to and rewards under the local development grant. In addition, this was supported by strong elements of CB to all tiers of local government through demand–-driven capacity building grants to LGs, and also supply driven capacity building where appropriate. Alongside this, LGDP supported the strengthening of local government systems through the elaboration of basic rules and regulations, manuals and guidelines, using project funding under LGDP. An emphasis on community participation, publicity on results and transparency also helped strengthen ownership, accountability, and efficiency at the local level.
- Third, LGDP has helped established a clearer framework and plan for the implementation of decentralisation policies. LGDP-II, in particular, supported and paved the way for stronger coordination between DPs and between DPs and GoU. This was achieved through the demonstration effect of the performance grant system, which encouraged donors to fund the system. More directly, LGDP supported the establishment of the JARD and the instruments to enhance DP-GoU coordination, harmonisation, alignment and improved M&E of the progress made. These processes are still incipient, but they have started an irreversible process towards strong coordination. Furthermore, the lead ministry – MoLG - has a strong ownership in this process.

204. There are, however, a number of areas where improvements could have been greater. For example M&E systems could have been better oriented towards local government's core reporting requirements, and the assessment process and capacity building could have been better targeted towards weaknesses in public financial management such as improvement in cash management. In addition, the outputs of LGDP system could have been greater if efforts had been made to ensure the positive lessons learned from LGDP were learned in other sectors. Overall, cross sectoral coordination has been disappointing.

205. It is also important to note that events outside the sector have constrained the extent of the outputs achieved by LGDP identified above. The creation of new districts has put a strain on capacity. The introduction of new structures by the Ministry of Public Service, without ensuring adequate availability of funding, has meant that many districts are understaffed. The withdrawal of

central government revenue sources, without adequate compensation means that core administrative functions are now underfunded. These have all served to undermine the outputs registered by the LGDP approach; however the dialogue, technical assistance and capacity building associated with LGDP have helped to ameliorate these effects.

206. Finally, it is important to note the effects of the shift away from donors from Sector Budget Support to the grants since 2006. This has shifted the balance of resource allocation too far in the direction of policy development and supply driven capacity development support and away from local service delivery and demand driven capacity building. The returns to supply driven institutional development support in terms of improved capacity are likely to be lower than if funding were to be invested in demand driven capacity and local infrastructure via the performance grant system. The DPs are now aware of this and possibilities to make a topping-up of the local development grants are being explored.

5.2 The Sector Outcomes Influenced by SBS

SQ4.2: Have the improvements in sector systems and processes to which SBS has contributed, had a positive influence on sector service delivery outcomes, and are they likely to do so in future?

207. There are two major positive effects on service delivery outcomes from the improvements in sector outputs influenced by LGDP:

- The support from LGDP has had a direct impact on the expansion of service delivery at the LG level (documented in Section 2.2) in sectors such as health, education, water and roads, particularly the improved coverage of citizens needs for infrastructure and service facilities – and the reduced distance of the public to schools, health units and water points (see section 2.2). LGDP contributed 36% of development transfers to local governments between 2000/01 and 2006/07. The majority of projects were satisfactorily implemented[65], and they were implemented with better value for money than other development grants.
- The contributions to improvements in institutional capacity have had effects not just on the Local Development Grant, which represented 5-10% of local government revenues, but the efficiency and effectiveness of all local government expenditures. This in turn has had a positive effect on local service delivery overall. Various reviews have documented a clear correlation between the enhanced capacity of the LGs in core generic areas such as planning and accounting, and the actual efficiency in service delivery.[66]

208. The fact that central government has taken over the funding of the local development and capacity building grants means that these positive effects are likely to continue in future.

209. The positive effects the LGDP has had on service delivery outcomes could have been greater if more progress had been made to maximise spill-over effects to other sectors of LGDP through the application of LGDP procedures in other sectors. If more focus had been placed on the overall framework for financing local governments (including the implementation of the FDS), and harmonising processes across sectors, the approaches spearheaded by LGDP could have had a greater positive effect on service delivery quality as well. Related to this, the sustainability of these effects are further undermined by the erosion of recurrent funding available for the operation and maintenance of investments funded by SBS, as mentioned in section 2.2.

[65] See note 62.
[66] World Bank, Project Completion Report, 2004, pages. 7, 12 and 22.

210. Finally, the external factors noted above have constrained the positive effects of LDG, most notably in improving the quality of service delivery and investments made.

6. Conclusion

Primary Study Question:	**How far has SBS met the objectives of partner countries and donors and what are the good practice lessons that can be used to improve effectiveness in future?**

The overall conclusion is that the LGDP, through support to the strengthening of decentralisation in Uganda from 2000 to 2006, has been an effective instrument in promoting the enhancement of *institutional* capacity at all tiers of governance. It has also been a relatively efficient means to provide a better coverage of the citizens needs for local service delivery, despite the modest share of the grants of the total funding available for LGs.

211. To a large extent, the LGDP met the objectives of the partner country and the development partners supporting the project. The development objective of the LGDP-II, which was to "improve the local governments' institutional performance for sustainable and decentralized service delivery", has largely been achieved, and it is unlikely that other support modalities, particularly the previous projectised and fragmented area-based approach from the 1990s, would have been able to achieve the same results.

212. LGDP has promoted legal compliance, PFM improvements, good governance and cost effective ways to improve local services. Furthermore, it has provided important support to enhance coordination within the decentralisation "sector". Some important positive impact of this can be observed in the DP-DP coordination and DP-GoU interactions. It has proved that LG service delivery systems can be established if the right modalities are put in place. However, the full potential of the LGDP approach was never realised - there were lost opportunities and the overall funding system for LG service delivery has experienced a number of severe and persistent weaknesses. Most importantly, there was poor coordination with other sectors and institutions, which has led to incoherence in reforms of the overall financing framework for local governments and a failure to ensure the lessons learned in the performance grant system were applied in other sectors.

213. LGDP has, overall, had a predominantly positive effect as table Table 6 below shows:

Table 6: SBS practices with positive and negative effects

Domain	Practice with positive effects	Practice with negative effects
Sector policy, planning, budgeting, monitoring and evaluation	• The LGDP helped with the establishment of the LGSIP, the common results matrix, the JARD which has the potential for improving overall sector monitoring and coordination • The LGDP model of providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for LGs to improve planning and budgeting in the areas assessed. • TA and capacity building – both supply and demand driven – helped build capacity in both planning and budgeting. The assessment process has helped LGs identify areas where capacity needs upgrading. • The project support under LGDP has helped the ministry procure TA for the development of a clear policy framework and plans for the sector overall, and helped establish a sectoral review process. • The Local Development Grant provided crucial discretionary funding for LGs which has enabled LGs provide services in line with local needs. The initial size of the LDG was large enough to make a significant impact on local investments.	• Inappropriate technical solutions in M&E, for example LOGICS, which failed to address immediate LG reporting and monitoring requirements and were not well utilised. • Donors failed to work for consensus across sector donor groups, to ensure that DPs had a consistent line on decentralisation within sectors. • The shift away from SBS towards institutional basket (project) support under LGSIP since 2006, has shifted the balance of resource allocation too far in the direction of policy development and supply driven capacity development support, and away from local service delivery and demand driven capacity building.
Procurement,	• The LGDP model of providing a discretionary investment	• The TA/Capacity building

Domain	Practice with positive effects	Practice with negative effects
expenditure, accounting and audit processes	grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for LGs to improve procurement and accounting in the areas assessed. • TA and capacity building – both supply and demand driven – helped build capacity in accounting, procurement and audit. Meanwhile the assessment process has helped LGs identify areas where capacity needs upgrading. • LGDP project support has helped the ministry procure support to develop procurement accounting and audit systems, which has been flexible to respond to needs. • The involvement of communities in the entire project cycle of investments funded from Local Development Grant has been positive, and an important factor in lower unit costs observed in those investments. • The Dialogue and JARD framework, alongside the flexibility of TA and Capacity Building support have been able to mitigate some of the negative effects of policy decisions from outside the sector	support, and assessment framework could have been better targeted to key weaknesses in PFM, such as cash management and overall budget predictability.
Capacity of sector institutions and systems for service delivery	• SBS and complementary project support successfully helped the establishment of a new government grant system for delivering local investments which was not there previously. This helped make operational an important element of the government's new decentralisation policy, the decentralisation of the development budget. • The performance grant model of the LDG, CBG and Annual Assessment, funding by SBS and project support, has proved an effective tool in building LG capacity in areas of planning, budgeting and financial management. Supporting LGs to elaborate CB needs assessments, CB plans, strengthen their HR departments means they are increasingly in charge of their own development • The mainstreaming of the management of LGDP into the ministry is positive, and the DPSF, LGSIP, and JARD have created new demands on the MoLGs capacity	• The replication of the performance grant system in other sectoral grants has not been successful. • The LGDP, and TA/Capacity building projects linked to LGDP have been less successful at building institutional capacity in the MoLG. This, in part has been because the incentives to build capacity have been far weaker than for LGs, and also the its management has less influence than other ministries. • It has been difficult to maintain the quality of the assessment process following the full mainstreaming of the assessment process.
Domestic ownership, incentives and accountability	• The LGDP system used and supported the application of GoU systems and procedures (with very minor derogations) that were already in place and strongly owned. • The system for delivering local investments required that all levels of LGs were involved and that communities were also involved. • At the core of the approach was the incentive framework linking qualification to an investment grant to adherence to the LG systems set out in the legal framework. It was in LGs interests to adhere to the law and deliver investments in a participatory and transparent manner. • Meanwhile efforts at mainstreaming the management of the grant system in MoLG represent an important effort in ensuring that the system is sustainable over the long term.	• The major failure has been the inability for the benefits of the LGDP approach to be introduced into the overall intergovernmental fiscal transfer system. Thus, whilst the investments from LGDP have been allocative efficient, cost efficient, have supported the decentralisation agenda and policy, been appreciated by everyone involved and have contributed to improved incentives, the full potential across the entire LG system has not been realised.

214. There has also been a sign of weakened high level policy support to the original decentralisation objectives from 2003/04 and onwards[67] and a number of policy decisions have constrained the impact of the LGDP on the overall system and structure of local governance – amongst these the continuous creation of new districts undermining the capacity development and

[67] These risks were identified in the study by Steffensen, Tidemand and Ssewankambo (2004), op cit.

reducing funding of LGs' core functions. The flexible and comprehensive design of the LGDP has enabled the project to intervene and mitigate these constraints in a technical manner, but the challenges in the overall structure of the system of LG in Uganda, including challenges in the core funding system, remain unresolved.

215. A number of important lessons can be drawn from the use of this "hybrid" aid instrument:

- The LGDP has shown the importance of using the GoU systems and procedures. It has supported the further refinement of these along the implementation of actual service delivery initiatives – not by focusing much on prior conditions but rather on progressive gradual improvements;
- The hybrid approach of the LGDP instrument, combining SBS with project based technical assistance and capacity building in a coherent programme design, has proved effective in building and strengthening downstream systems of service delivery.
- Although ideally they should not be needed, PIUs (or PCUs) can bridge the gap in a case where government institutions are having insufficient capacity. However, there is need for a clear and elaborated strategy for gradually mainstreaming of functions to the core government system. Staff in the PCUs need to be directly linked with staff in the core Ministry – LGDP has pursued this, but it has not been without major challenges;
- In a process of aid harmonisation and alignment, various instruments can be applied and be complementary as long as they are coordinated and supported within the same overall policy and strategic framework. A comprehensive and coherent programme, like the LGDP, can be a stepping stone towards a more overall sector investment strategy and can promote stronger DP coordination and DP-Government alignment;
- A government grant system can easily absorb a number of area based funding schemes and reduce the fragmentation and transaction costs, providing a more equitable allocation of source across the country along the GoUs development objectives;
- The establishment of strong incentives for improvements in institutional capacity makes capacity building activities more effective. The LGDP has demonstrated that such incentives can be established by linking investment funding to an annual assessment of institutional performance. Such incentives need to be backed up by a mix of supply and demand driven Capacity Building Support. The system also needs to be supported by a strong Government commitment and a strong, coherent decentralisation policy and conducive environment;
- Technical reforms can mitigate unfavourable policy initiatives, but cannot alone be fully effective without overall strong political commitment. There is a need for a stronger linkage between the technical reforms and the policy initiatives;
- The coordination between the cross-cutting decentralisation reforms and the sector reforms and the establishment of SWAp-like arrangements has proved difficult. Sector reforms have tended to undermine the decentralisation reform agenda, particularly in the absence of a stronger system of coordination. This has ultimately reduced the effectiveness of both sets of reforms on service delivery outcomes. A Ministry of Local Government, supported by DPs within decentralisation, cannot alone change this in favour of strong overall policy support. Alignment of dialogue across donor groups, plus a pro-active approach with strong networking between the core actors – MoLG, MoFPED, sector ministries, Local Government Finance Commission and the associations of local authorities is required.

216. However, it is evident that the positive lessons from LGDP were not fully learned as donors have moved away from supporting the local investments and demand driven capacity building through sector support, and concentrated on demand driven institutional capacity building at the centre. This is not likely to have as positive effect on local service delivery outcomes as the mix of

support provided during the LGDP periods. The recent discussions on how to return to the support to the core funding of local services (the local development grants) is highly welcomed.[68]

[68] An agreement has been made to use a part of the DP basket funds to top up the LDG grants, but the modalities for this are still being discussed.

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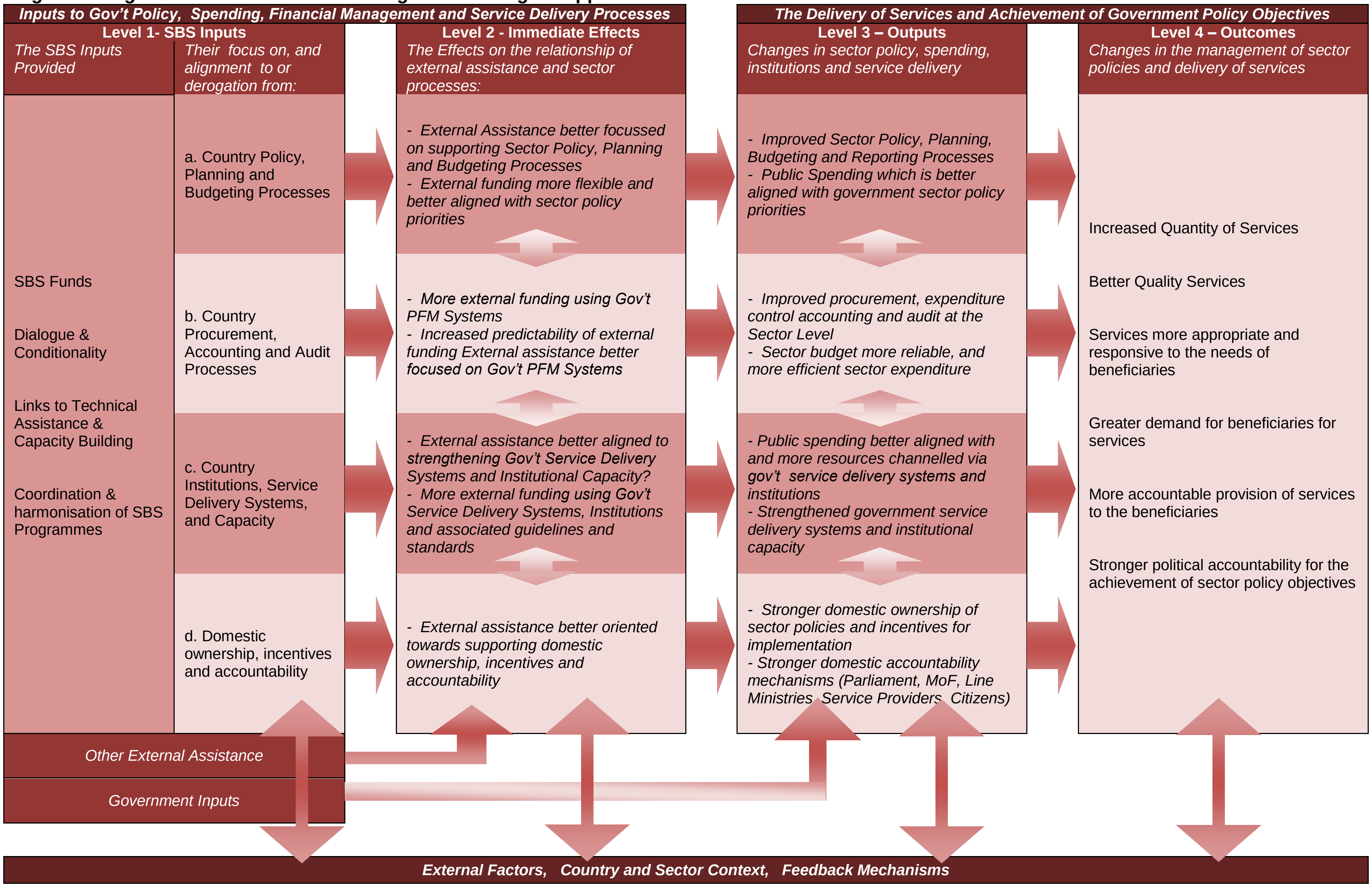
People Interviewed/consulted

Person	Position
Patrick K. Mutabwire	Acting Director, Ministry of Local Government.
Paul Kasula	Project Coordinator, Ministry of Local Government
Assumpta	Project Officer, Ministry of Local Government
Adam Babale	Senior Economist, Local Government Finance Commission
Martin O. Olaa	World Bank
Frits Raijmakers	Project coordinator, 9th EDF Support to Decentralisation Programme
Charles Magala	Royal Danish Embassy, member of the D-SWG
Jens-Peder	DFID, Chairman of the PFM SWG.
Lance Morrell	Consultant and former TLL on the LGDP I and LGDP II for the World Bank
Emmanual Ssewankambo	Director of Mentor Consultant
Per Tidemand	Dege Consult ApS
Mikael Holm	Component Manager, Public Procurement, USAID
Tim Williamson	Consultant
Gerhard van Land	Managing Director of ETC-EA

Annex 1 – Summary of Findings against Logical Framework

Figure 9: Logical Framework for Assessing Sector Budget Support in Practice



a) Context in which SBS has been Provided

	Country context	Sector context	Aid management context
2000- LG SBS (LG Develop-ment Program-me) (LGDP) "early comer"	Policy: Poverty Eradication Action Plan (PEAP) (1997) developed pre-WB-led PRS process (strong endogenous commitment to poverty reduction after civil war - 1986). Regularly updated since then. Poverty Action Fund (PAF) (1998), earmarking specific budget revenues (first, debt relief) to priority/poverty reduction programmes (from 17% to 33% of total budget from 1997/8 and 2003/4). Growth: Average 5.1% (1984-1994) and 6.4% (1994-2004); Success story (credit to economic liberalisation) though largely restoring pre-war level, and linked to aid; Unclear whether foundations are in place for longer-term sustainable growth. Poverty reduction: Significant reduction of poverty income until 2000 (56% in 1992 to 34%); Recent trend uncertain (van Arkadie vs Whitworth); Wide urban/rural gap; Large and persisting regional disparities (historical roots, continued insecurity; North is poorest, 66% poverty rate in 2000). Institutional context (unitary country): Decentralisation: Formalising home-grown model developed during the war; Local Government (LG) Act 1997 (large service delivery responsibilities at district level); Large-scale fiscal decentralisation but increasingly reduced local discretion (conditional grants dominating LG funding). Momentum and early progress in CSR (1990s: down-sizing, first pay reform steps) lost in 2000s. PFM: Long history of PFM reforms; Strong Ministry; Continuous improvement in budgeting systems since MTEF 1997/8; Progressive strengthening of budget implementation (control, accounting, oversight) especially after 2003.	Policy/plan/M&E: Legal framework 1995/7/8 Policy Strategic Framework, LG Sector Investment Plan (LGSIP) 2006, with inputs from the LG Development Programme (LGDP) Fiscal Decentralisation Strategy (FDS, 2002) never fully implemented; Continued sectors' resistance, e.g. to streamlining sector development grants into one multi-sector grant as envisaged under FDS and experimented with LGDP; Increasing number of conditional grants since 2002. Large increase in number of districts ➔ Strain on capacity. Spending levels: Large increase in LG transfers (2000/1-2008/9): doubled in nominal terms; 56% increase in real terms; Decrease in total GOU budget share, in discretionary funding and in operation & maintenance and development funding. Simultaneously decrease in own source revenues due to centrally decided tax abolition. Sector results Massive expansion in LG services (2000-2008), especially access, funded through increasingly	General aid trends: Late 1990s ODA increasing then flattening around 2005 (approximately 50% budget). Big shift to BS from late 1990s; shift SBS to GBS from around 2000; project (off-budget) increase (volume and share) from 2004 (GOU withdrew commitment to additionality and deterioration in aid relationship). Aid to LG sector From 1992 to end 1990s support to LG through project including numerous area-based programs (ABP); little donor coordination. 1998-2003: District Development Programme then LG Development Programme (LGDP) I ➔ Some donors moved from ABPs to (de facto) 'SBS' in LGDP (same time as "sector" SBS through PAF); WB-led dialogue with GOU focused on LGDP I operational issues; broadening by mid-LGDP I, with also increased practices of joint donor work. 2003-06: LGDP II including SBS for LGD & CD, parallel support through PAF SBS/GBS; emerging system for broader dialogue, 1st Joint Annual Review in 2004; Yet specific dialogue on LGDP remained led by WB, with own "conditions for disbursement of SBS". 2006: GoU took over LG Development & Capacity Building (CB) grant funding; some donors moved to Common Basket Fund to support LGSIP, others use bilateral support (in LGSIP framework); More formalised SWAp; Working Group (WG) linked to Public Sector Reform (PSR) WG. Weak link between "LG SBS" and GBS though core decentralisation issues included in PRSCs; Good link between decentralisation and PFM reform processes

	Recent trends: Mounting corruption and other governance issues are a concern since early 2000s, and eroded "coalition" between the President, the Ministry of Finance, Planning and Economic Development (MOFPED) and donors.	conditional sector grant funding (through Poverty Action Fund/PAF)	through overlapping donor membership in relevant WGs; Weak link between decentralisation and sector reform processes, and lack of consistency between "sector" and "LG" donor support.

b) Nature of the SBS Provided

	Types:	**Timescale:**	**Donors:**
Uganda Local Gov't	LGDPI	2000-2003	World Bank (throughout) Netherlands (2001 onwards)
	LGDPII	2004-2006	World Bank, Denmark, Austria, Netherlands

	Funds and Financial Management	**Dialogue and Conditions**	**T/A and Capacity Building**	**Links to other Aid**
Uganda Local Gov't	Funding Level: High – LGDPI approx $17m SBS per annum, LGDPII, $40m per annum. The funding was largely additional, although some bilateral donors switched from area based programmes. Earmarking: Traceably earmarked to a new (in 2000) development and capacity building grants for local governments. Traceability: The grant funded by SBS is traceable, although SBS funds are not. Cash Management: budget for grants disbursed in accordance with normal budgetary procedures, with no special disbursement procedures for SBS. GoU gives commitment, as part of the Poverty Action Fund, the grants would be disbursed in full.	Dialogue Structures: Initially dialogue project based, led by the World Bank, and focused on the new transfer system. Sector wide dialogue processes were established during LGDPII, with the introduction of the Joint Annual Review of Decentralisation. However, dialogue on LGDP remained led by the World Bank. Conditionality Framework: Conditions relating to LGDP/SBS did not relate to the overall sector dialogue but project specific concerns. The grant system funded by LGDP was itself highly conditional. Local Governments could only access the development grant if they reached minimum conditions which were assessed in an Annual Performance Assessment of local governments.	Part of SBS Instruments: Capacity building was a central part of the LGDP design. A capacity building grant was provided to local governments, which they were free to develop. Under the project component of LGDPII a capacity building system was developed with development of training modules and certification of training providers. Project support was also provided to support the MoLG develop and strengthen LG systems. Links to other initiatives: Efforts were made to	Links to Project Funding in the sector: Initially LGDP was stand-alone and had no links to other aid modalities. However, under LGDPII and the introduction of the SWAP processes. Links to GBS: There were few explicit links to GBS, although some core issues related to decentralisation were included in the GBS dialogue.

<table>
<tr><th></th><th>Funds and Financial Management</th><th>Dialogue and Conditions</th><th>T/A and Capacity Building</th><th>Links to other Aid</th></tr>
<tr><td></td><td><u>Use of Other Gov't FM Systems</u>: Grant uses local government FM systems in full. Separate project accounts were required at the LG level, However, this was required for gov't grants anyway. As a new grant was created, reporting systems also needed to be developed.

<u>Derogations:</u> There are no derogations from country systems.</td><td><u>Focus:</u> Dialogue and conditions project specific.

<u>Derogations:</u> LGDP conditions and dialogue were not anchored in the sector dialogue LGDPII helped to establish.</td><td>coordinate with other donor TA projects to LGs in the context of the donor decentralisation group, and later in the context of the SWAP process.</td><td></td></tr>
<tr><td></td><td colspan="4">Other important design features</td></tr>
<tr><td></td><td colspan="4"><u>Performance Based Grant System:</u> At the heart of the LGDP was a performance based grant system. This had three main components. The local development grant was provided to fund local service delivery infrastructure. Eligibility for, and the amount of local development grant received was based on the results of an Annual Assessment of institutional performance, the second component of the system. The third component was a capacity building grant which local governments all were eligible for even if they did not qualify for the development grant. This was intended to help local governments address capacity gaps and enable them to qualify for the development grant in future.

<u>Derogations</u>: The main derogation of the LGDP was institutional – it involved the establishment of a project management unit in the Ministry of Local Government, which assisted in the establishment of the grant system and managed the project components of the LGDP. Although the unit remained for LGDPII, efforts were made to mainstream the management of project components within the Ministry of Local Government.</td></tr>
<tr><td></td><td colspan="4">Effects of SBS on the Quality of Partnership</td></tr>
<tr><td></td><td colspan="4"><u>Quality of Dialogue:</u> LGDP provided a vehicle around which donors could work together at the national level. The subsequent development of the SWAP processes, has provided a framework for more coherent dialogue focused on a single local government policy. There have been tensions between the World Bank and other members of the donor decentralisation group. Importantly the Joint Annual Review of Decentralisation provides a forum for discussion between local governments and central government.

<u>Transaction Costs:</u> LGDP provided a vehicle for moving from area based programmes to a system for funding local government infrastructure. This contributed to a lowering of transaction costs, especially at the local government level where there were multiple modalities had previously been employed.

<u>External factors:</u> A major problem for the dialogue has been the policy decisions that have emerged from outside the sector – including the creation of new districts, and withdrawal of local revenue sources. Whilst the donor dialogue is focused on the Ministry of Local Government, most of these decisions are made by the Parliament or the President.</td></tr>
</table>

c) The Effects of SBS in Practice

i) Policy, Planning, Budgeting, Monitoring, Evaluation and Expenditure

	Inputs	Effects	Outputs
	SBS funding is on budget, is aligned with government policies and is reported on using government systems. Focus (TA/CD, dialogue, conditions) on sector policy, planning, budgeting, monitoring and evaluation processes? *Derogations: why, justified, temporary?*	External funding more flexible and better aligned with sector policies overall; assistance better focused on supporting sector policy, planning and budgeting processes. *Effects of derogations*	SBS contribution to: ▪ Public spending is better aligned with government sector policies. ▪ Improved Sector policy, planning, budgeting and reporting Processes *How do derogations affect outputs?*
Uganda Local Gov't	**Contextual factors:** Perceived policy retreat from decentralisation, as a result of various high level policy pronouncements throughout the 2000s. TA and capacity building support to local government budgeting provided through parallel project support to the Ministry of Finance.		
	National Policy and Planning, M&E processes: Initially LGDP did not contributed to national policy and planning processes. LGDPII funded consultancies to support the development of a clearer policy framework, sector investment plan and associated Joint Annual Review of Decentralisation. Through the donor decentralisation group, donors are involved in this review process. LGDPII also explicitly tried to involve line sectors in these processes and foster better coordination. LGDPII also supported the establishment of financial and M&E databases at the central level, which drew from systems at lower levels (see below). The performance based grant system established under LGDP I was, however, fully consistent with the national policy for decentralisation. Beyond this, LGDP inputs did not focus on the national budget process.	Initially SBS inputs did not focus on national processes. Under LGDPII inputs supported the establishment of clearer sector planning, budgeting and review processes.	Consultancy support via LGDPII contributed towards the establishment of a clearer framework for policy and strategy development, monitoring and review, which the local government ministry has increasingly taken control over. However, central government has been formulating policies outside this framework, which have been perceived as centralising, and been a source of tension between the centre and local governments. The dialogue and review processes have helped mitigate the effects of these external factors. The national databases of local government financial and M&E data have never become functional, as many parallel systems exists and LGs have not provided the information regularly (see below). There has been little effect on the national budget process where it relates to local governments, which has not been an area of SBS focus.

	Inputs	Effects	Outputs
	LG Planning, Budgeting and Monitoring Processes LGDP inputs more focused on planning and M&E than on budgeting. LGDP TA inputs supported the development of participatory planning systems, and automated financial and M&E system for use at the local level. Training modules on LG planning and budgeting were prepared, and these have been supported via the SBS funded capacity building grant. Through the annual assessment process linked to the qualification for the SBS-funded local development grant, LGs were assessed against and given incentives to achieve minimum benchmarks and performance criteria for planning and budgeting, based on LG policies and systems.	LGDPII project TA and Capacity Building inputs supported the development of LG planning and monitoring systems which are poorly coordinated with sector systems. SBS funded capacity building grant supported LGs, whilst the annual assessment process provided incentives.	TA and capacity building support associated with LGDP helped develop LG planning and M&E systems. However, as hinted at above, the LG financial and M&E system represented inappropriate technical solutions, and competed with sector MISs, and have yet to get off the ground. This points out a broader problem, that other sectors have different planning and reporting requirements, which undermines coherence in local systems and adds to the administrative burden. The strongest contribution SBS made to planning and budgeting is through the performance based grant system, and the incentives it has provided to improve planning and budgeting capacity. The development of improved training modules helped support improvements in the use of capacity building grants under LGDPII.
	Resource Allocation: Between 2000 and 2006 SBS provided $185m of support to the performance based grants. This represented a combination of new additional funding to the sector and a switch by donors from area based programmes. These funds were non-traceable earmarked to the local development and capacity building grants. The remaining external support under LGDP was provided as conventional project support to the Ministry of Local Government. LGDP support the establishment of these new grants, which were broadly discretionary in nature, although the local development grant had to be spent on infrastructure and the capacity building grant on capacity building expenditure. A transparent formula was used for allocating the local development grants between local governments. Since 2007 there has been a shift back towards project support by donors who are providing Common Basket Funding to MoLG.	SBS to LGDP amounted to 36% of transfers for development expenditures to LG using the gov't grant system, which have been a source of discretionary funding for investments. Sector aid flows were channelled via sector specific grants with their own procedures. A recent shift back towards Common Basket Funding in the LG Sector, has meant external funding is more	LGDP has contributed to an increase in funding for investment spending by local governments, which has been provided in a discretionary manner. Nevertheless LGs have chosen to allocate their funds to PRSP priorities such as schools, water points, roads and clinics. There has been a high level of cost efficiency and user satisfaction of these investments. However, coordination with sectors in funding local service delivery has been week, and there has been a fragmentation of grant funding, and earmarking of resources to local governments. The use of a formula ensured that funds were distributed efficiently and equitably across local governments, a sharp contrast to the ad hoc distribution of area based programmes. The recent shift towards Common Basket Funding has meant that the balance of resource allocation in the sector has shifted towards institutional support provided by the centre, relative to the funding for local investments and demand driven capacity building.

	Inputs	Effects	Outputs
		focused at the centre.	

ii) Procurement, Accounting and Audit

	Inputs	Effects	Outputs
	SBS funding uses government expenditure control, accounting and audit processes. Focus (TA/CD, dialogue, conditions) on strengthening government expenditure control, accounting and audit processes at the sector level? *Derogations: why, justified, temporary?*	External funding uses government FM systems more and is more predictable; assistance better focussed on gov't FM systems. *Effects of derogations*	SBS contribution to: ▪ Improved sector procurement, expenditure control, accounting and audit at the sector level; ▪ Sector budget more reliable and sector expenditure more effficent. *How do derogations affect outputs?*
	Contextual factors: Since the start of LGDP there have been some negative external factors. This include decisions to withdraw some local revenue sources; the creation of new local governments without adequate funding for the resulting structures; and the restructuring of local governments.		
	SBS funds represent a switch from Area Based Programmes and additional resources. Full amounts disbursed to treasury during the project time frame in a predictable manner and in the full expected amounts. SBS funds were disbursed via government cash management systems. When they reached local government, SBS funds used government financial management systems, such as procurement, accounting and internal audit systems in full. The project component of LGDP supported further development of financial regulations, procedures, manuals and training modules for various areas of financial management, including accounting, internal audit, procurement; and LG revenue mobilisation. Direct capacity building support was provided as well as through the Capacity Building Grant. A major component has been professionalising the accounting	SBS to LGDP amounted to 36% of transfers for development expenditures to LG using the gov't grant system, which used government systems and provided funding for investments. LGDPII project TA and Capacity Building inputs supported the development of financial procedures and related supply driven capacity building and training.	The vast majority of effects of SBS on financial management systems have been at felt at the LG level The timeliness of transfers to LGs has improved over time. The local development and capacity building grants have been protect from in year cuts. Those LGs who do experience in year delays, do so because they have not met reporting and accountability requirements which are strictly enforced. The use of government procedures for planning, procurement and execution of local investments at higher and lower local governments helped improve those systems, which have delivered relatively high value for money and user satisfaction. The shift from area based programmes reduced the fragmentation of PFM systems at the local level. Beyond this, there have broader improvements in many aspects of PFM to which LGDP has contributed. In 1999, prior to LGDP less than 25% of higher local governments prepared final accounts at all. There is a direct correlation between the introduction of LGDP and these improvements.

	Inputs	Effects	Outputs
	cadre. LGDP largely relied on the annual statutory audit, although periodic value for money audits were also carried out by private firms for local governments, and the project component. Support was provided to the statutory audit of lower local governments, where the Auditor General had limited capacity. The annual assessment linked to investment grant included performance benchmarks on budget execution accounting, internal audit and LG revenue Mobilisation. Whilst most of the assessment criteria were well formulated, some were not.	SBS funded capacity building grant supported LGs, whilst the annual assessment process provided incentives.	In 2007 95% produced them *on time*. Improvements in internal audit have been realised. From no professional accountants prior to LGDP there are now 41 qualified accountants and 391 qualified accounts technicians working in local governments. Through the assessment process LGDP provided the incentives for local governments to improve, and through the supply of capacity building funds and support, the means to do so. There were gaps. For example there was limited progress on improving the reliability of annual budget due to poorly formulated performance criteria in the assessment and lack of focus on cashflow management. More importantly have been the external factors which have undermined progress – these include the abolition of revenue sources which undermined local revenue collection; the restructuring of LGs without sufficient funding to implement the new structures; and the creation of new districts which spread existing FM capacity more thinly.

iii) Capacity of Sector Institutions and Systems for Service Delivery

	Inputs	Effects	Outputs
	SBS use of Gvt mainstream funding mechanisms and sce delivery institutions (structures, guidelines, standards) Focus (other inputs) on devt and strengthening of mainstream sce delivery institutions?	SBS contribution to focus aid (funds and other inputs) on govt sce delivery systems & capacity	SBS contribution to: ▪ Increased **total** funds flows through mainstream govt channels for sce delivery, & used within regular sce delivery framework ▪ Stronger sce delivery systems & institutions
	Derogations: why, justified, temporary?	Effects of derogations	How do derogations affect outputs

	Inputs	Effects	Outputs
Uganda LGDP[69]	**Contextual factors:** Decentralisation policy (LG Act, 1997) devolving responsibilities for basic service delivery to LGs; (1997-2007) Impressive growth in resources available to LGs but reduction of LGs' discretion in the use of resources following notably sectors' concerns of imposing national policy priorities; Politically motivated decisions also shaping policy implementation (creations of new districts[70], reduction of LG tax basis); Aid to "LG sector" through a mix of projects and area-based programmes (APBs), sector aid including sector SBS[71], LGDP, and GBS[72]; Lack of consistency between "LG donors" and "sector donors".		
	SBS has been practically the only source of discretionary funding for LG investment. Funds were channelled through GOU funding mechanisms and used existing GOU structures to a large extent (fully at LG level) and systems that LGDP initially helped to develop but which were based on LG mandates and the standards expected from LGs as per GOU policy. Associated TA/CD and conditionality supported this at two levels. At the central level these inputs helped to develop and implement the system of performance-based investment grant and an innovative LG CB strategy underpinned by the CB grant to LGs[73]. The PIU initially established to help implement the LGDP was gradually mainstreamed in MOLG. At LG level, access to investment funding was conditional to individual LGs' performance	Several donors switched from projects/ABPs to LGDP SBS modalities. However, other aid modalities continued to be used too, including projects and sector aid for decentralised service delivery. While these aid flows could also be aligned with GOU systems, sector aid flows were following a different approach, privileging a combination of prescriptions from sector central authorities and tight earmarking of LG transfers over the LGDP incentive-based approach to LG	LGDP had a significantly positive effect on the capacity of LGs' institutions to deliver investment needed to improve service delivery (continuously improved performance of most LGs in the annual assessment process). It had some but more limited effect on the capacity of MOLG to oversee LGs' performance and more generally its capacity to lead the decentralisation process. SBS funding and the associated performance-based resource allocation system provided the incentive for LGs to strengthen their performance in managing service delivery related investment. SBS system alignment, following the system established in the early stages of LGDP and mainstreamed in GOU systems, generated significant flow-of-fund systemic capacity effects. This was reinforced by the disappearance of ABPs hence of the associated separate systems. This systemic effect was supported by specific, well-targeted action on LG capacities through the SBS-CB and other complementary inputs. However, the effects on service delivery systems have been limited by weak coordination with service delivery sector reforms, lack of buy-in of sectors to LGDP approach and the ensuing continued trend of

[69] The LGDP consists of three flows of funds: an SBS investment grant to LGs (referred to above as SBS), an SBS CB grant to LGs (referred to above as SBS-CB), and funds for centrally managed inputs in support to the two other elements, delivered through project modalities.
[70] There were 39 districts in 1995, 56 in 1998, and 80 in 2007.
[71] E.g., education SBS supporting the school construction grant is aid to education and to the LG sector in so far as primary school construction is a mandate of LGs.
[72] Through GBS conditionality framework including conditions on decentralisation
[73] Under the second phase of the programme the implementation of the CB grant system was further strengthened through the elaboration of a LG CB development strategy, a CB coordination unit, a system of accreditation for capacity building service providers and the development of standardised training modules.

	Inputs	Effects	Outputs
	assessed annually in relation to (organisational, system, human resource) capacities critical for sound investment management (participatory planning, budgeting, procurement, FM, poverty reduction focus). Assistance to address capacity gaps was provided through (i) demand-driven CB activities implemented by LGs with the SBS-CB grant, based on CB needs assessments and plans; (ii) complementary supply-driven activities implemented by the central level. The dialogue initially focused on the development and institutionalisation of the approach, successfully linking up with the PFM reform dialogue and CD activities and expanding at a later stage to focus on the decentralisation strategy as a whole. However, it remained somehow 'inward looking', failing to draw service delivery sector stakeholders in.	capacity development. Complementary TA to specific LGs or at central level was provided by LG SBS donors and others, and coordination was formalised over time. In contrast, there seems to have been little attempt to coordinate LGDP CD activities with other, sector-driven, CD activities at LG level (which, judging by the education sector, may not have been many), with the important and positive exception of strong links made with the PFM reform and support activities at LG level.	fragmentation of LGs' resources for service delivery. For instance, it is not clear to what extent the LGs medium term development plans (which by 2007 were in place and annually updated in most LGs) effectively integrate sectoral investments. By its focus on local investment, LGDP could not address issues of LG capacity in relation to routine management of service delivery. LGDP SBS effects on LG capacity was also weakened because LGs continued to have to operate under separate systems (providing separate workplans and reports to MOLG and sector ministries, following separate guidelines etc.). SBS effects on LGs' capacity and service delivery systems were weakened by the simultaneous drain on organisational and financial capacity owing to the continuous creation of new LGs. LGs' financial capacity was also further reduced by the erosion of their tax basis, following politically-motivated decisions taken at the centre. Simultaneously, in terms of share in the total GOU budget, transfers to LGs decreased over time, which eroded the capacity of financing the non-wage recurrent costs of service delivery, including operational and maintenance costs of the investments realised through LGDP SBS.

iv) Domestic Ownership, Incentives, and Accountability

	Inputs	Effects	Outputs
	How do SBS inputs support ▪ Stronger ownership of policies and	SBS contribution to aid influence on domestic	SBS influence on ownership, incentives & domestic accountability (stronger sense of responsibility & demand for performance etc.)

	Inputs	Effects	Outputs
	incentives to implement them? ▪ Stronger domestic accountability[74]/ avoid parallel requirements & biasing accountability to donors? Derogations: why, justified, temporary	ownership, incentives and accountability Effects of derogations	
Uganda LGDP	**Contextual factors:** Decentralisation policy (LG Act, 1997) devolving responsibilities for basic service delivery to LGs; (1997-2007) Impressive growth in resources available to LGs but reduction of LGs' discretion in the use of resources following notably sectors' concerns of imposing national policy priorities; Politically motivated decisions also shaping policy implementation (creations of new districts[75], reduction of LG tax basis); Aid to "LG sector" through a mix of projects and area-based programmes (APBs), sector aid including sector SBS[76], LGDP, and GBS[77]; Lack of consistency between "LG donors" and "sector donors".		
	SBS has been practically the only source of discretionary funding for LG investment, thus supporting local decision-making on investments. Funds, channelled through GOU mechanisms and using existing GOU structures and systems (that LGDP first helped to develop) based on LG mandates, were thus strongly aligned with GOU system of LGs' incentives and accountability as per the decentralisation policy. Associated TA/CD and conditionality supported this at two levels. At the central level these inputs helped to develop the system of performance-based investment and the LG CB strategy and system,	Several donors switched from projects/ ABPs to LGDP SBS modalities. However, other aid modalities continued to be used too, including projects and sector aid for decentralised service delivery. Whilst these aid flows could be aligned with GOU systems, for sector aid this was with a model for LGs' incentives and	SBS alignment with GOU system of accountability for LGs strengthened it. It helped operationalise greater participation of lower LGs and local communities, thus strengthening downward accountability. This was significantly reinforced by LGDP activities in and effects on LGs' capacity, in so far as this was critical to enable LGs to provide meaningful accountability. However, the fact that there is no integrated reporting on LGs' investment and provision of service delivery limits LGs' accountability to citizens and local politicians. In particular, SBS funding, conditional on performance, provided strong incentives to LGs' to perform as expected from them according to the domestic legal and policy framework, in core PFM and good governance areas. SBS discretionary funding strengthened LGs' ownership of the implementation of service delivery policies to which the locally decided investments contributed. The combination of strong incentives to improve performance and larger discretion in the use of funds was appreciated by most LG technical staff and politicians alike.

[74] Understood as accountability to parliament, of sector spending agencies to Min Finance, of sce providers to sector ministry/LG, of sce providers to citizens, of LGs to sector ministries (within respective mandates)
[75] There were 39 districts in 1995, 56 in 1998, and 80 in 2007.
[76] E.g., education SBS supporting the school construction grant is aid to education and to the LG sector in so far as primary school construction is a mandate of LGs.
[77] Through GBS conditionality framework including conditions on decentralisation

	Inputs	Effects	Outputs
	strongly aligning these in support to the GOU system for LG accountability. At LG level, access to investment funding was conditional to individual LGs' performance assessed annually in relation to (organisational, system and human) capacities in areas (PFM, good governance) critical to enable LGs to fulfill their mandate and be accountable for this. The dialogue, initially focused on the development of the LGDP approach, later on expanded to support the entire decentralisation policy strongly owned by some parts of GOU. However, the dialogue remained somehow 'inward looking', failing to draw service delivery sector stakeholders in.	accountability that differed fundamentally from the LGDP model. In effect sector aid to decentralised service delivery espoused the combination of prescription from sector central authorities and tight earmarking of LG transfers that sector ministries generally used.	However, these effects were weakened by the continuation of the radically different approach used by service delivery sectors to ensure sector policy implementation by the LGs, stressing upward accountability and reducing scope for local decision-making hence incentives and ownership of policy implementation at local levels. Through supporting decentralisation system development and later on, strategic development, LGDP supported ownership of the policy in some parts of GOU. The LGDP approach to LG incentives and accountability has been fully mainstreamed in GOU funding and institutional systems: LGDP investment and CB grants are now GOU-funded, and the performance assessment is also GOU-led. This demonstrates strong onwership of the approach in some parts of GOU. There is some concern that the quality of the assessment process is deteriorating or might deteriorate. Clearly, technical weakening (or political capture) of the system would undermine its credibility and distort incentives and accountability. The positive effects noted above were weakened by the failure to reform more broadly the inter-governmental fiscal transfer system in line with the LGDP approach, which maintained a situation of mixed messages with regard to LGs' power and responsibilities in service delivery. This, in turn, is rooted in uncertain ownership of the decentralisation policy in other parts of GOU. Moreover, political incentives meant that the tension between decentralisation and sector objectives has not been addressed.

d) The Outputs and Outcomes of SBS

	Main SBS Outputs Influencing Outcomes	Outcomes Influenced by SBS
	Changes in sector policy, spending, institutions, service delivery systems and accountability influencing sector outcomes	Changes in the implementation of sector policies and delivery of services influenced by SBS
Uganda LGDP	SBS supported the establishment of a performance based grant system earmarked to service delivery infrastructure, which provided 36% of the value of funding for investments in core LG service delivery areas.	SBS has had a direct impact on the expansion of service delivery at the local government level, through the provision of service delivery infrastructure at that level (nearly 21,000 projects in all), with the vast majority of projects satisfactorily implemented, with better value for money than other development transfers. These projects have been

	Main SBS Outputs Influencing Outcomes	Outcomes Influenced by SBS
	Secondly, the incentive system, linking the access of grants to an annual assessment of institutional performance has been a major contributor to strengthening of LG institutional capacity, procedures and systems in areas such as planning and financial management. This was supported by a combination of demand driven and supply driven capacity building. Thirdly, LGDP has helped establish a clearer framework and plan for the implementation of decentralisation policies, although policy making has become increasingly adhoc outside this framework. Greater progress could have been made in M&E, financial management if SBS had had supported more appropriate technical solutions, and focused more smartly. Cross-sectoral coordination has been disappointing.	selected by lower and higher local governments and implemented by them, enhancing local accountability. The effects of the performance incentive system linked to grant allocations on institutional capacity has had a positive effect on local service delivery overall. The fact that central government has taken over funding of this system means that the improvements are likely to be sustained in future. However, the positive effects could have been greater if more progress had been made to maximise spill-over effects to other sectors. These effects have also been constrained by external factors which have had an influence on decentralisation policy.

Annex 2: Country and Sector Data

a) Core Country Data

Uganda	1990	1995	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	SSA (2007)
Exports of goods and services (% of GDP)	7	12	10	12	11	12	11	11	14	14	15	17	**34**
GDP growth (annual %)	6	12	5	8	6	5	6	7	7	6	11	8	**6**
GNI per capita, Atlas method (current US$)	320	220	280	270	260	240	240	240	260	290	330	370	**951**
GNI per capita, PPP (current international $)	390	530	610	650	670	700	740	780	830	870	960	1,040	**1,869**
Gross capital formation (% of GDP)	13	12	16	20	19	19	20	21	22	22	21	22	**22**
Inflation, GDP deflator (annual %)	44	9	9	-	8	5	-	7	5	8	2	7	**6**
GDP (current US$m)	4,304	5,756	6,585	5,999	6,193	5,841	6,216	6,604	7,221	9,225	9,957	11,771	**847,438**
Official development assistance and official aid (% GDP)	15	14	10	10	14	14	12	15	17	13	16	15	**4**
Official development assistance and official aid (current US$m)	663	833	655	606	845	825	732	999	1,217	1,195	1,549	1,728	**35,362**
Revenue, excluding grants (% of GDP)	-	-	11	12	11	11	11	11	12	12	13	-	**-**
Total debt service (% of exports of goods, services and income)	81	20	21	14	8	5	6	7	7	9	5	2	**5**
Fertility rate, total (births per woman)	7	7	-	-	7	-	7	-	-	7	7	7	**5**
Population growth (annual %)	4	3	3	3	3	3	3	3	3	3	3	3	**2**
Population, total (m)	18	21	23	24	25	25	26	27	28	29	30	31	**800**
Income share held by lowest 20%	-	-	-	6	-	-	6	-	-	6	-	-	**-**
Poverty headcount ratio at national poverty line (% of population)	-	-	-	-	34	-	-	38	-	-	-	-	**-**
Agriculture, value added (% of GDP)	57	49	42	38	30	30	25	26	25	27	26	24	**15**
Primary completion rate, total (% of relevant age group)	-	-	-	-	-	57	59	59	56	54	-	-	**-**
Ratio of girls to boys in primary and secondary education (%)	-	-	89	90	93	95	97	97	97	98	-	-	**-**
Births attended by skilled health staff (% of total)	-	38	-	-	-	39	-	-	-	-	42	-	**45**
Contraceptive prevalence (% of women ages 15-49)	-	15	-	-	-	23	-	-	-	-	24	-	**23**
Immunization, measles (% of children ages 12-23 months)	52	57	53	57	59	61	63	64	66	68	68	68	**73**
Life expectancy at birth, total (years)	50	46	-	-	46	-	48	-	-	50	51	51	**51**
Malnutrition prevalence, weight for age (% of children under 5)	-	22	-	-	-	19	-	-	-	-	-	-	**27**
Mortality rate, under-5 (per 1,000)	175	164	-	-	149	-	-	-	-	136	-	130	**146**
Prevalence of HIV, total (% of population ages 15-49)	14	12	10	9	8	8	7	7	6	6	6	5	**5**
Roads, paved (% of total roads)	-	-	-	-	-	-	-	23	-	-	-	-	**-**
Improved sanitation facilities, urban (% of urban population with acces	27	27	-	-	28	-	-	-	-	-	29	-	**-**
Improved water source (% of population with access)	43	49	-	-	56	-	-	-	-	-	64	-	**-**

b) Additional Sector Data

Table 7: Central and Local Government Expenditures over Time (UGX Billion, Current Prices)

B UGSH	R 1995/96	B 2000/01	B 2002/03	B2002/03	R 2002/03	PR 2002/03	B 2003/04	B 2003/04	B2004/05	B 2006/07	B2007/08	B2008/09
	Excl. Dono	Excl. Donor	Excl. Donor	Incl. Donor	Excl. Donor	Incl. Donor	Excl. Donor	Incl. Donor	Inc. Donor	Incl. Donor	Inc. Donor	Incl. Donor
	Projects	Projects	Projects	Projects	Projects	Projects	Projects	projects	Projects	projects	projects	projects
GDP	5976.9	10,296	12438	12,438.0	12,438.0	12,348.0	13,972.0	13,972.0	16,026.0	20953.4	24,069.0	25,189.7
1) Total Public Expenditures, excl. LG revenues		1,517.8	2,037.6	2,768.3	2,092.4	2,719.6	2,304.7	3,098.8	3,454.4	4,106.3	4,734.4	5,842.9
2) Line ministries and LG, excl. LG revenues *	869.9	1,307.6	1,757.5	2,458.9	1,777.3	2,364.2	1,927.0	2,675.8	2,907.5	3,626.2	4,229.6	5,209.5
LM Government exp.	697.9	806.6	1,086.8	1,788.1	1,123.1	1,706.2	1,184.8	1,932.0	2,102.0	2,762.4	3,129.4	3,997.5
Transfers to LGs**	**172.0**	**500.9**	**670.7**	**670.2**	**654.2**	**658.0**	**742.2**	**743.8**	**805.5**	863.8	1,060.9	1,152.3
Transfers as share of total public expenditures		33.0%	32.9%	24.2%	31.3%	24.2%	**32.2%**	24.0%	23.3%	21.0%	22.4%	**19.7%**
Transfers as share of LM + LG exp.	19.8%	38.3%	38.2%	27.3%	36.8%	27.8%	38.5%	27.8%	27.7%	23.8%	25.1%	**22.1%**
LG tranfers as share of GDP	2.9%	4.9%	5.4%	5.4%	5.3%	5.3%	5.3%	**5.3%**	5.0%	4.8%	4.4%	**4.6%**

Notes:

Total public expenditure inc. Interest payment and arrears payment, excluding expenditures from LG revenues
All figures are in current figures
B = Budget, R = actual release, PR = provisional releases, LM = Line ministries
*Excluding statutory interest payments
**LG expenditures are often measured as CG transfers (usual method in Uganda), however, there are also LG funded expenditures, see below. Transfers differ sligthly from the LG program expenditures
Data for transfers varies slightly from the other sheets due to different sources.
Beginning from 2003/04 the MTEF includes the donor - financed projects (and budget support); however, the quality of the information is still imperfect

The differences between (1) and (2) are the statutory interest payments and the statutory excl. Interest payments.
GDP 2005/06: Projected outturn, MFPED. GDP 2006/07 Estimated with a growth rate on 5.9 %

Sources

1995/96 figures should be treated with due caution, Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and service Provision in Uganda, Annexes, March 2000.
2000/01 Public Expenditure Review, the World Bank September 23, 2002.
B 2002/03 and 2003/04: and Provisional Budget Release: Draft Estimates of Revenue and Expenditure, 2003/04, MoFPED.
R 2004/05 Budget Speech For Financial Year 2006/07, Ministry of Finance, Planning and Economic Development
B 2006/07: Budget Speech For Financial Year 2006/07 (grants: 863.4 B UGSH).
B 2007/08 and B 2008/09 are from the Draft Estimates of Revenues and Expenditures, FY 2008/09, MoFPED, 2008.
GDP figures: WB data-bank: Figures are in current market prices; GDP 2001 used for FY 2000/01, 2002 for FY 2002/03 etc.

Table 8: Trends in Intergovernmental Fiscal Transfers – Discretion and Type (UGX Billion 2003/04 Prices)

	Overall Conditional vs Discretionary			Discretion in Development Funding			Wage, Operational & Development Funding			
Financial Year	**Unconditional**	**Conditional Discretionary**	**Conditional Earmarked**	**Earmarked Development**	**Discretionary Development**	**Recurrent**	**Wage Recurrent**	**Non-Wage Recurrent**	**Development**	**Grand Total**
1995/96	54.13	-	102.93	-	-	157.06	N/A	N/A	-	**157.06**
1996/97	60.64	-	159.14	-	-	219.78	N/A	N/A	-	**219.78**
1997/98	65.07	-	206.05	-	-	271.12	N/A	N/A	-	**271.12**
1998/99	78.55	-	268.54	-	-	347.09	N/A	N/A	-	**347.09**
1999/00	85.52	-	296.99	33.09	-	349.42	N/A	N/A	33.09	**382.51**
2000/01	90.37	35.49	419.98	83.60	35.49	426.75	313.06	113.69	119.09	**545.84**
2001/02	86.21	47.48	547.48	101.84	47.50	531.83	370.53	161.36	149.34	**681.17**
2002/03	85.76	53.12	564.28	96.16	53.12	553.88	400.93	153.00	149.28	**703.16**
2003/04	86.30	65.10	590.00	108.06	65.05	568.29	416.23	152.13	173.11	**741.40**
2004/05	84.29	60.39	601.39	97.02	60.44	588.60	445.24	143.41	157.46	**746.06**
2005/06	117.56	54.13	583.44	98.61	54.14	602.38	470.61	131.75	152.76	**755.13**
2006/07	98.28	51.97	627.44	81.06	51.98	644.65	528.04	116.58	133.04	**777.70**
2007/08	118.06	51.71	683.51	94.01	51.72	707.55	566.29	141.20	145.73	**853.28**
2008/09	113.13	49.25	720.13	125.37	49.26	707.87	554.86	153.06	174.63	**882.50**

* UCG expected to be used in average 100 % on salaries for core staff and 80 % of G-tax compensation is assumed to be spent on salaries

Table 9: Details of Intergovernmental Fiscal Transfers 2000/01 to 2008/09 (‘000 UGX, Current Prices)

Budget figures	Figures in '000'						Adj. Budget (1)	Adj. Budget (2)	Adj.Budget (3)	Budget (4)
Grant		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07**	2007/08	2008/09
Districts	Uncond	74,978,036	68,684,506	72,581,599	77,442,393	81,680,000	82,452,304	75,996,013	**106,063,842**	**106,048,842**
Urban	Uncond.	4,160,000	4,658,000	4,854,841	5,354,841	5,849,621	14,564,047	17,075,208	**25,203,960**	**26,176,951**
TOTAL	**UNCONDITIONAL**	**79,138,036**	**73,342,506**	**77,436,440**	**82,797,234**	**87,529,621**	**97,016,351**	**93,071,221**	**131,267,802**	**132,225,792**
Start-up	Costs	-	375,000	-	240,000		1,450,000	1,325,000	**750,000**	**1,350,000**
Salary	CAOs/TCs							**2,933,888**	**2,944,060**	**2,944,061**
GPT Compensation	District						28,809,372	20,696,388	**9,636,246**	**9,636,246**
GPT Compensation	Urban						5,990,628	4,303,612	**2,363,754**	**2,363,754**
TOTAL	**COMPENSATION**						**34,800,000**	**25,000,000**	**12,000,000**	**12,000,000**
ENVIRONMENT AND NATURAL										
Environ & Natural Resources		-	-	-	-	722,000	**845,286**	-	**857,317**	**785,000**
Environ & Natural Resources		-	-	-	-	176,000	**244,875**	**540,000**		
TOTAL						**898,000**	**1,090,161**	**540,000**	**857,317**	**785,000**
Equal.	Dist	-	-	3,722,754	3,004,278	3,004,581	**3,004,159**	-		
Equal.	Urban	-	-	611,523	530,000	530,000	**475,754**	**-**		
Total	Equalisation grants	**4,000,000**	**4,400,000**	**4,334,277**	**3,534,278**	**3,534,581**	**3,479,913**	**3,494,160**	**3,494,159**	**3,494,159**
HEALTH										
Delegated Salary		7,960,000	13,201,870	-	-	-	-	-		
PHC Wage	(PAF)	9,615,963	35,040,000	43,860,683	44,673,669	67,980,200	72,305,797	74,619,608	**85,062,427**	**85,067,540**
PHC-Nwge	(PAF)	8,816,118	14,869,970	19,666,789	23,156,607	23,156,671	22,424,895	22,910,949	**22,921,231**	**28,711,100**
NGO(PHC)		6,722,811	10,889,994	15,750,443	16,943,345	16,944,925	16,752,429	16,678,569	**16,592,900**	**16,592,898**
NGO WAGE	Subvention	-	706,604	862,555	775,075	775,075	807,105	1,060,427	**1,146,100**	**1,146,102**
District	Hospitals.	6,323,264	8,869,975	8,714,000	10,361,500	10,361,500	10,047,527	10,612,501	**10,612,500**	**10,768,500**
Referal	Hospitals.	3,790,000	5,419,755	-	-	-	-	-		
PHC	*Development*	*9,960,000*	*10,980,000*	*7,577,353*	*9,203,794*	*6,090,000*	***5,921,011***	***6,095,693***	***6,305,947***	***15,305,700***
TOTAL		**53,188,156**	**99,978,169**	**96,431,823**	**105,113,990**	**125,308,371**	**128,258,764**	**131,977,747**	**142,641,105**	**157,591,840**
EDUCATION										
UPE	Capitation	40,568,591	46,740,000	41,533,533	41,533,533	41,532,621	34,635,144	32,826,556	**32,476,910**	**41,008,531**
Primary	Salary	143,690,000	155,558,001	185,072,250	208,000,000	230,200,000	249,375,416	342,502,000	**344,995,500**	**354,317,374**
Secondary	Salary	36,221,598	42,810,000	58,249,700	61,249,700	76,149,700	75,196,239	97,689,000	**107,700,000**	**117,700,000**
Secondary	Capitation	4,750,000	7,380,000	7,733,931	7,733,931	7,713,819	6,900,312	-		
Tertiary	Salary	7,920,000	9,805,731	13,424,331	15,000,000	14,338,540	15,331,329	16,616,651	**16,457,960**	**16,460,000**
Health	Training	1,760,000	1,930,000	1,888,542	1,887,946	2,057,856	1,767,771	1,770,525	**1,803,303**	**1,893,468**
	SFG - Devt.	*45,910,000*	*55,900,000*	*53,883,202*	*59,778,352*	*54,581,210*	*52,186,671*	*16,410,000*	***16,410,420***	***21,705,287***
TOTAL		**280,820,189**	**320,123,732**	**361,785,489**	**395,183,462**	**426,573,746**	**435,392,881**	**507,814,732**	**519,844,093**	**553,084,660**
ROADS										
District	Roads	15,051,692	21,110,000	16,305,749	15,483,125	14,513,387	14,295,699	18,834,969	**39,918,338**	**49,628,338**
Urban	Roads	-	-	4,479,502	3,052,127	4,033,550	4,039,227	-	**11,550,000**	**5,563,000**
Regional	W/shops	2,948,309	3,800,000	2,500,000	3,500,000	3,500,000	3,500,000	3,280,595	**4,501,662**	**6,001,662**
TOTAL		**18,000,001**	**24,910,000**	**23,285,251**	**22,035,252**	**22,046,937**	**21,834,925**	**22,115,564**	**55,970,000**	**61,193,000**
AGRICULTURE										
Agric.Ext	Non-Wage	1,104,379	3,000,000	2,820,863	2,816,862	2,822,329	2,788,980	3,080,654	**3,585,372**	**3,113,692**
Agriculture	Wage	3,310,000	3,470,000	3,060,808	3,061,008	3,061,008	3,027,322	3,880,000	**4,004,730**	**4,004,730**
Agric Devt	Centres	-	-	100,000	104,000	100,000	100,000	100,000	**100,000**	**100,000**
PMA - Non	Sectoral	-	5,060,000	4,986,882	4,986,882	4,979,154	4,757,042	6,486,566	**6,140,000**	**5,445,599**
	NAADs	-	*850,000*	*5,658,837*	*9,476,157*	*14,478,298*	***26,130,210***	***37,130,080***	***48,736,000***	***81,236,000***
TOTAL		**4,414,379**	**12,380,000**	**16,627,390**	**20,444,909**	**25,440,789**	**36,803,554**	**50,677,300**	**62,566,102**	**93,900,020**
WATER										
Rural	Water	21,000,000	24,050,000	24,492,033	29,604,998	29,602,811	29,260,010	40,660,000	**45,443,209**	**45,440,314**
Urban	Water	1,190,864	1,310,000	1,285,913	1,448,710	1,450,676	1,495,948	1,500,000	**1,503,910**	**1,503,910**
TOTAL		**22,190,864**	**25,360,000**	**25,777,946**	**31,053,708**	**31,053,487**	**30,755,958**	**42,160,000**	**46,947,119**	**46,944,224**
ACCOUNTABILITY										
PAF Mon.&	Account.	7,514,937	10,270,000	4,821,234	5,181,730	5,029,510	**3,774,683**	**3,902,104**	**3,657,940**	**3,831,729**
IFMS	0	-	-	-	177,000	-	**269,333**	**650,100**	**650,000**	**650,000**
Boards &	Commiss	-	-	7,416,040	6,783,544	7,105,544	**6,294,245**	**6,260,250**	**6,492,410**	**6,318,621**
DSC C/M	Salary	-	-	-	672,000	672,000	**735,000**	**948,000**	**960,000**	**960,000**
TOTAL										
SOCIAL DEVELOPMENT										
CDA	Non/Wage	-	-	-	728,000	728,000	888,164	985,637	**1,427,537**	**485,000**
CDA	Salary	-	-	-	670,050	665,005	709,053	722,000	**771,700**	**771,600**
Public	Lib Board	-	-	-	179,000	179,000	330,000	330,001	**330,000**	**330,000**
Women, Youth & Disab.	Councils	-	-	-	-	1,912,508	1,325,543	1,363,991	**1,500,000**	**1,500,000**
FAL	0	-	-	1,423,060	1,623,060	1,616,860	1,560,912	1,599,890	**1,686,386**	**1,597,703**
TOTAL		**-**	**-**	**-**	**1,577,050**	**3,484,513**	**3,252,760**	**3,401,629**	**4,029,237**	**3,086,600**
DISCRETIONARY										
	LGDP	*26,000,000*	*31,920,000*	*41,900,065*	*65,050,218*	*65,253,479*	***62,312,162***	***64,309,600***	***64,309,600***	***64,309,600***
	Dutch Grant	*6,630,000*	*10,890,000*	*8,710,000*	-	-		-		

(1) In FY 2005/06 the compensation figure 22 billion UGSH for compensation of G-Tax + additional 12.9 billion UGSH was subsequently allocated to the LGs.
(2) FY 2006/07: The tax compensation is shown separately.
(3) FY 2007/08: The figure for UCG includes 33 billion for salary enhancement to ensure better coverage of the basic administrative structures. The figures for the CAO/TC includes 750 million UGSH for IFMIS.
(4) FY 2008/09: The figure for UCG includes 33 billion for salary enhancement to ensure better coverage of the basic administrative structures. The salary component of the UCG was B 86.4 whereas teh non-wage component was B 46 UGSH
* The cost of the new structures in 2001/02 price level, including the payment of political leaders is 134.3 B UGSH.
**The costs of the political leaders (executive, which is paid by UCG) was from FY 2006/07 included in the UCG (approx. B 9.0 UGSH)
*** The data only includes transfers through the LG system, i.e. Not the sub-county development model, development secondary education or tertiary education, non-wage component.

Annex 3 – Inventory of Sector Budget Support

a) Details of Inputs by Type of SBS

The study reviewed the LGDP, which is a hybrid support modality to the decentralisation sector in Uganda, with some components with clear features of SBS and other components as typical project support, although within a coherent framework.

This table provides a detailed description of SBS inputs provided in the country.

SBS Input	***SBS Type 1***
(i) SBS Programmes and their Objective	
Programmes Included (state donor an dates)	LGDP started from 2000 based on some minor piloting in five districts from 1997-2000. From 2003, it covered the entire country.
What Were the Objectives of SBS Operations and how has this evolved over time?	The objective of the support was to improve LGs ' institutional performance for sustainable and decentralised service delivery. This objective was stable over time, but the support expanded from 2003 to include support to development of the important tools to promote a SWAp for decentralisation.
(ii) Level of Funding and Arrangements for Predictability	
Trends in the size of SBS agreements over time. (relate to table in part c of the inventory)	The support has been stable over time with approximately 50 million USD p.a. of which the support to the grants to LGs was about 70 %. This component was expanded in 2003 where the programme covered all LGs in Uganda (the grants to LGs was about 60-65 Billion UGSH p.a.
Mechanism and timing communication of amounts for the next financial year and the medium term and their reliability in practice. (relate to table in part c of the inventory)	The size of the support to LGs was clear over the medium term as fixed in the PAD. The announcement of funds to LGs was done in around October/November prior to the FY, which starts in July. However, the announcement of indicative planning figures to the LGs was somehow delayed in some years.
No. and timing of tranches within the financial year and their predictability in practice.	The number of tranches from the World Bank in each facility – LGDP I and LGDP II was three. LGs received quarterly releases from the treasury.
(iii) Earmarking, Additionality and Disbursement Channels	
Overall level of discretion/degree of earmarking of SBS (i.e. location on y axis of spectrum of SBS)	The funds to LGs did have a high level of discretion (e.g. was non-sectoral with a clear broad investment menu), but at the CG level, the earmarking was high, but flexible and could change during dialogue in the steering committee and technical committees.
Route of channelling funds to treasury and thereafter to sector institutions (describe diagram in section b of inventory)	A part of the funds was routed from the DPs to the consolidated fund and from there directly to the LGs according to a clear allocation formula. Other parts of the funding were routed directly to the host Ministry – MoLG's operational accounts.
Requirements for additionality of funds to sector budgets / programmes within the sector, if any.	There was a clear requirement for additionality and clear rules for minimum GoU contribution to the same budget lines.
Specific arrangements for earmarking of funds to specific programmes in the budget and during budget execution.	Very clear earmarking of funds to specific budget lines in the MTEF.
(iv) Conditionality and Dialogue	

SBS Input	***SBS Type 1***
Overall Focus of Dialogue and Conditionality (location on x axis of spectrum of SBS)	The Dialogue focused both on specific project issues as well as the overall decentralisation process, particularly through the support to the JARD and decentralisation strategy policy framework. The most intense dialogue was around the legal framework for LG revenue mobilisation as this had impact on the sustainability of the investments from the programme.
Nature of Underlying MoU/Agreement (this may be agreement specific or joint)	Specific triggers for releases such as proper M&E and accountability systems and procedures, staffing requirements in the MoLG and conducive fiscal framework for LGs.
Nature and types of condition relating to the sector	The conditions focused on issues of importance for project implementation, but some few focused on the sustainability of the local service delivery, e.g. on a sustainable system of LG taxation (particularly on property taxes and requirements for the new Property Rating Bill).
Conditions outside the sector	No. All conditions were related to the specific sector.
The nature of Performance indicators monitored, and the source of performance indicators	At the local level a very comprehensive system for tracking of the LG performance in most PFM and governance areas was applied. At the central level the M&E system elaborated concentrated on project issues as well as support to elaboration of an overall system of progress review for the sector – the JARD
Accountability requirements for SBS programmes	Clear accounting requirements, mostly focusing on reporting for use of funds and allocations to LGs. Transfers of funds to LGs were clearly conditioned on proper accountability for previous funds.
Existence of any performance assessment framework or equivalent, and description of its structure and content.	See above- the indictor system has about 120 indicators for measurement of LG performance in core functional areas.
Process for reviewing adherence to conditions	In the beginning the assessment of LG performance was contracted out to private companies with some support from co-opted team members from CG and LGs, NGOs and DP. In the later years, MoLG has been in charge of the assessment with some QA from national consultants. Assessment of LGs' performance is conducted annually.
Linking of conditions to the triggering of release of funds	At the local level there is a clear system for linking the performance of LGs against the release of funds – both minimum access criteria which determines on/off funding and performance measures which determine the level of support. This is not the case at the CG level, but there are a few project specific triggers, particularly in the beginning of each programme period.
Mechanisms/Fora for dialogue with respect to SBS	This has emerged during the last decade. In the beginning it was concentrated on the steering committee and the technical committee of the programme, but since 2004, there has been a Joint Annual Review of Decentralisation (JARD) and an emerging strengthening of the D-SWG with regular meetings between the GoU and DP representatives supporting decentralisation.
(v) Links to TA and Capacity Building	
Overall focus of TA/Capacity Building Linked to SBS	• Very strong focus on TA/CB, not with long term international consultants, but with a combination of a demand driven CB approach with short term input, a smaller PCU supporting MoLG and the project

SBS Input	*SBS Type 1*
	implementation and contracting in of private consultants (mostly Ugandan companies for core functions).
Is the provision of technical assistance and capacity building delivered as an explicit part of the SBS programme? If yes, describe.	• Yes, see above. At the LG level, the CB grants are supposed to be used in manner whereby the LGs will enhance their opportunities of using funds for development more efficiently and sustainable. The CB support is supposed to address the performance gaps identified during the annual assessments.
Is the provision of TA/Capacity building in other programmes/provided by other donors explicitly linked to the provision of SBS?	• In some cases yes- the DFID DSP programme was initially highly linked to the LGDP to support the core functions of the MoLG. There is also a clear linkage between the support to LGDP and the support to the overall PFM, firstly through EFMPI and EFMPII and later through the FINMAP.
Are there TA/Capacity Building conditions built into the SBS programme? If yes, describe.	• Yes, it is part and parcel of the programme, but somehow flexible
(vi) Coordination with other SBS programmes and other aid modalities *e.g. common calendar, joint missions, common set of indicators, pooling of funds, delegated cooperation or silent partnership, Joint diagnostic and performance reviews*	
What provisions are there for coordinating the provision of SBS and its associated dialogue and conditionality amongst DPs providing SBS?	• The coordination started during the LGDP with joint reviews, joint analysis of the program approach and emerging harmonisation. During LGDP II there was a very strong support to the coordination arrangements through the JARD, joint support to development of policy and guidelines, LGSIP etc. There has been a gradually move towards a SWAp. The D-SWG is not the main forum for dialogue during the FY and coordination of the support to the implementation of the LGSIP.
What provisions are there for coordinating the provision of SBS inputs with General Budget Support?	• This has not been strong, but the LGDP stakeholders have ensured that a few important policy and technical issues have been brought to the attention in the PRSC dialogue process and in some of the conditions for support – e.g. the FDS support, the compensation of tax changes, the funding of core staff, improved M&E systems for LG expenditure and revenues etc. The LGDP-II grant is "protected" within the Poverty Action Fund, which is a ring-fenced arrangement to provide budget support DPs with some trust.
What provisions are there for coordinating the provision of SBS with project and other forms of aid to the sector?	• This was being pursued through the D-SWG, but the achievements have been mixed, with persistent weak linkages to the sector reforms and only emerging links to the overall public sector reform work through the PSM-SWG.
(vii) SBS as a transition mechanism	
Have donors providing project/basket funding shifted their support to SBS? What was the justification for doing so?	• Yes, a number of DPs first moved from area based project support to support to the LGDP project, then from 2007 to a basket fund arrangement in support of the entire LGSIP. The GoU systems and procedures have been gradually strengthened and the LGDP has demonstrated that local systems may work if sufficiently supported and promoted through strong incentives.

SBS Input	***SBS Type 1***
Have donors shifted from the provision of SBS to general budget support? What was the justification for doing so?	• Few of the DPs have done this, particularly DFID. DFID stopped funding decentralisation reform in FY 2006/07 and is supporting Public Service reform within the Public Sector Management.
(viii) Influence of HQ requirements on the design of SBS instruments	
Degree to which the design of SBS has been influenced by donor HQ requirements	• As the LGDP is a project within the WB terminology, there are certain conditions which had to be complied with, particularly within procurement (prior approval of the ToR and non-objection concerning international bidding). Some DPs have had problems supporting a project in a case where their HQs demanded move towards pure budget support.
	•

b) Funding flows by financiers

	FY 2003/04	2004/05	2006/06	2006/07	Total
Component 1					
GoU	0.4	0.4	0.1	0.1	1.0
IDA	14.3	4.0	2.2	0.3	20.8
Danida	0.6	0.6	0.60		1.8
Sub-total	15.3	5.0	2.9	0.4	23.6
Component 2					
IDA	21.8	24.9	28.6		75.3
Ireland	2.2	2.5	2.8		7.5
Netherlands	4.3	5.0	5.7		15.0
LGs	2.83	3.24	3.71		9.78
Sub-total	31.13	35.64	40.81		107.58
Component 3					
GOU	0.5	0.6	0.6	0.6	2.3
IDA	3.0	3.0	2.9	2.9	11.8
Danida	0.15	0.15	0.15	0.15	0.6
Austria	0.075	0.075	0.075	0.075	0.3
Sub-total	3.725	3.825	3.725	3.725	15.0
Component 4					
GOU	0.3	0.4	0.3	0.2	1.2
IDA	2.8	3.8	2.3	2.0	10.9
Sub-total	3.1	4.2	2.6	2.2	12.1
Component 5					
GOU	0.1	0.1	0.2	0.2	0.6
IDA	1.5	1.4	1.6	1.7	6.2
Sub-total	1.6	1.5	1.8	1.9	6.8

Source: Received by PCU, Ministry of Local Government

c) Summary table of the funding flows

	2003/04	2004/05	2006/06	2006/07	Total
Component 1 Strengthening of the Decentralisation process	15.30	5.00	2.90	0.40	23.60
Component 2: Local Government Development Grants	31.13	35.64	40.81	0.00	107.58
Component 3: capacity building grants	3.73	3.83	3.73	3.73	15.0
Component 4: Local Revenue enhancement	3.10	4.20	2.60	2.20	12.10
Component 5: Programme management and Monitoring	1.60	1.50	1.80	1.90	6.80
Total	**54.86**	**50.17**	**51.84**	**8.23**	**165.08**

Source: PCU, Ministry of Local Government

d) Financial Contributions against Budget over Time (US$m)

This table below sets out SBS disbursements against the amount budgeted for in the national budget and the total committed in the BS agreement. (actual figures)

Programme Name	**Donor**	**Start date**	**Loan/ Grant**	**Earm-arking (1)**	**Total Agreement**	**2000-2003**	**2003-2007**
LGDP-I	World Bank	PAD December 1999 (Effective 2000)	Loan	X LGDP PAD	USD 81 Million	Disbursed: 74.6 Million USD from IDA GoU: 7.6 Million USD	
LGDP-II	*World Bank* *World Bank* *Danida* *Austria* *Netherlands* *Ireland*	*4. QA 2003* *2003* *2003* *2003* *2003* *2003*	*Loan* *Grant* *Grant* *Grant* *Grant* *Grant*	*X LGDP* *X LGDP* *X LGDP* *X LGDP* *X LGDP* *X LGDP*	*USD 165 Million*		*USD 50 Million* *USD 75 Million* *USD 2.4 Million* *USD 0.3 Million* *USD 15.0 Million* *USD 7.5 Million*

(1) Earmarked to the LGDP project as described in the Project Appraisal Documents, see also table B and C.

e) Details of Conditions relating to Sector Budget Support Over Time

This table sets out the specific conditions (e.g. policy actions, performance targets) associated with SBS agreed each year, mapped onto the four themes in the assessment framework.

Timing	***Policy, planning and budgeting***	***Procurement, Expenditure, Accounting and Audit***	***Institutions, service delivery systems, and capacity;***	***Accountability***	***Due Process and other Conditions***
LGDP I 2000-03					
2000 LGDP-I-First Release	• All conditions were project specific. LGs had to submit annual work-plans prior to transfer of funds.	• MoLG submit Accounting Manual satisfactory to the World Bank • Operating project accounts	• Sufficient staff in PMU.	• Cash flow forecasts • Participation agreements with LGs (MoUs)	• Co-funding requirements • Special bank accounts opened
LGDP-I Second and third releases				• Satisfactory financial assessment report • Schedule with grants being released from previous year and forecast • Certification that there has been no major reallocations • Participation agreement • Progress reports • MTR in 2001	• Counterpart contribution • Operational and maintenance budget for KCC • Sufficient staffing in PMU
LGDP II 2003-07					
2003 (conditions prior to the start) First Release		• First Year Release: Preparation by Auditor General of an Audit Strategy for LLGs.	• First Year Release: Document outlining the process for new district creation	• First Year Release: No significant reallocations, deviations, suspension or partial suspension of funds releases under the third tranche of the LGDP I, as compared against the IPFs • Schedule of IDPs for LDGs have been released	• Conditions are related to tranche-releases. • Co-funding requirements • Special bank accounts maintained

Timing	***Policy, planning and budgeting***	***Procurement, Expenditure, Accounting and Audit***	***Institutions, service delivery systems, and capacity;***	***Accountability***	***Due Process and other Conditions***
				• Cash flow forecast • Participation agreement with LGs • Progress reports • Accountability for funds released to LGs	• MoLG shall maintain with staffing and function satisfactory to IDA, its PCG responsible for technical back-up support. • GoU will carry out the LGDP in accordance with the PIP.
2004 Second Year Release	• **A LG Rating Bill satisfactory in form of substance to the Association***	• Progress report on the audit strategy for LLGs • MoLG shall update the project chart of accounts for transactions to be undertaken by Dec. 31, 2003		• Financial performance assessments of LGs by MoLG • Schedule that LDG has been released to eligible LGs during preceding FY and the amounts released on a quarterly basis for the next FY • Certification with no significant reallocations compared to IPFs • Participation agreement with LGs • Progress reports • Accountability for release of funds to LGs	• Progress report on implementation of the agreed institutional plan
2005 Third Years Release	• **A LG Rating Act including mass valuations regulations***	• Evidence of an independent procurement review carried out in all HLGs.		• Financial performance reports • Schedule with amounts of LDGs released and schedule for next year • Certification with no significant reallocations compared to IPFs	• MTR review by Feb. 15, 2005

Timing	*Policy, planning and budgeting*	*Procurement, Expenditure, Accounting and Audit*	*Institutions, service delivery systems, and capacity;*	*Accountability*	*Due Process and other Conditions*
				• Participation agreement with LGs • Progress reports • Accountability for release of funds to LGs	

f) Details of TA and Capacity Building linked to the Provision of Sector Budget Support

The table below provides and overview of the TA and Capacity building provided to the sector which is linked to the provision of SBS, mapped onto the four themes of the assessment framework.

Timing	*Policy, planning and budgeting*	*Procurement, Expenditure, Accounting and Audit*	*Institutions, service delivery systems, and capacity;*	*Accountability*	*Other*
LGDP-I 2000-2003	• Significant support to LGs through the CB grants and backstopping. An important part of the CB grants to LGs went to strengthening of the planning and budgeting capacity. The project also supported elaboration of core participatory planning guidelines for LGs.	• Support to strengthen LG capacity, particularly through the CB grants, but also through backstopping support from MOLG/PMU • Support to strengthening of the audit of LGs • Support to the Office of the Auditor General to cover the audit of the LLGs, which had not been auditing prior to the LGDP.	• Strong CB support to LGs	• Support to development of an inspection manual, support to strengthen mentoring of LGs and support to strengthening of the inspection department of MoLG as well as of annual assessments of LGs performance in core areas of PFM	• Strong institutional CB support to MoLG and LGFC
LGDP-II 2003-2007	• Support to overall legal framework within planning, procurement and accounting, development of training modules, new guidelines and tools and significant funding of LGs CB support	• Support to new accounting regulations and manuals • Strong CB support to LGs • Support to strengthen of the audit of LGs • Support to elaboration of standardised training modules in all areas of PFM	• Strong CB support to LGs	• Support to several tools for enhanced accountability, participatory planning guidelines, transparency and M&E systems as well as continued support to the annual assessments of LGs performance, publication of results and sharing of best practices.	• Strong institutional support to MoLG, LGFC and the coordination of decentralisation reforms, under JARD and the D-SWG • Support to establishment of a LG CB Unit and coordination arrangement for LG CB.