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PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 145.9 MILLION  
(EQUIVALENT TO US\$200 MILLION)

TO THE

REPUBLIC OF UGANDA

FOR AN

INTERGOVERNMENTAL FISCAL TRANSFERS PROGRAM

June 6, 2017

Macro Economics & Fiscal Management Global Practice  
Africa Region

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CURRENCY EQUIVALENTS  
(Exchange Rate Effective as of April 28, 2017)

Currency Unit = Uganda Shilling (UGX)  
US\$1 = UGX 3,637  
US\$1 = SDR 0.72938396  
US\$0.00028 = UGX 1

FISCAL YEAR  
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACG	Anti-Corruption Guidelines
AGO	Accountant General Office
APO	Assistant Procurement Officer
AWP	Annual Work Plan
BMAU	Budget Monitoring and Accountability Unit
BoU	Bank of Uganda
BPED	Budget Policy and Evaluation Department
BSI	Budget Strengthening Initiative
BTVET	Business, Technical, Vocational Education and Training
CAO	Chief Administrative Officer
CAS	Country Assistance Strategy
CBR	Central Bank Rate
CC	Contracts Committees
CFO	Chief Finance Officer
CG	Central Government
CIID	Criminal Investigations and Intelligence Directorate
CLGPA	Comprehensive Local Government Performance Assessment
CPF	Country Partnership Framework
CPI	Consumer Price Index
CSO	Civil Society Organization
DFID	Department for International Development
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
DPF	Development Policy Financing
DPP	Directorate of Public Prosecutions
EAC	East African Community
ESMP	Environmental and Social Management Plan
ESSA	Environmental and Social Systems Assessment
EOC	Equal Opportunity Commission
F&C	Fraud and Corruption
FD	Fiscal Decentralization
FD-SC	Fiscal Decentralization Steering Committee
FD-TC	Fiscal Decentralization Technical Committee

FDI	Foreign Direct Investment
FDS	Fiscal Decentralization Strategy
FDU	Fiscal Decentralization Unit
FINMAP II	Financial Management and Accountability Program II
FSA	Fiduciary Systems Assessment
FY	Fiscal Year
GAPR	Annual Government Performance Report
GBV	Gender Based Violence
GDP	Gross Domestic Product
GoU	Government of Uganda
GRS	Grievance Redress Service
HC	Health Center
HCIII	Health Center (level III)
HCIV	Health Center (level IV)
HCWP	Health Care Waste Plan
HLAM	High-Level Action Matrix
HMC	Health Management Committee
ICT	Information and Communication Technology
IDA	International Development Association
IG	Inspectorate of Government
IFMS	Integrated Financial Management System
IFTRP	Intergovernmental Fiscal Transfers Reform Program
IMF	International Monetary Fund
INT	Integrity Vice Presidency
IPF	Investment Project Financing
IPFs	Indicative Planning Figures
IPPS	Integrated Payroll and Personnel System
IR	Interim Result
L-PIPs	Local Government Performance Improvement Plan
LG	Local Government
LGDP	Local Government Development Program
LGFC	Local Government Finance Commission
LGPA	Local Government Performance Assessment
LGPI	Local Government Performance Improvement
LGPI-TF	Local Government Performance Improvement Task Force
LIC	Low Income Countries
MDAs	Ministries, Departments, and Agencies
MDG	Millennium Development Goal
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning, and Economic Development
MoH	Ministry of Health
MoJCA	Ministry of Justice and Constitutional Affairs
MoLG	Ministry of Local Government
MoPS	Ministry of Public Service
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan

NBFP	National Budget Framework Paper
NDP	National Development Plan
NEMA	National Environment Management Authority
NITAU	National Information Technology Authority of Uganda
NPA	National Planning Authority
NWR	Non-Wage Recurrent
OAG	Office of the Auditor General
OBT	Output Budgeting Tool
ODRA	Open Data Readiness Assessment
OOB	Output-Oriented Budgeting
OPAMS	Online Performance Assessment Management System
OPM	Office of the Prime Minister
OTIMS	Online Transfer Information System
PAC	Parliamentary Accountability Committee
PAF	Poverty Action Fund
PAP	Program Action Plan
PBG	Performance Based Grant
PBS	Performance Budgeting System
PDO	Project Development Objective
PDE	Procurement Disposal Entity
PDU <sub>s</sub>	Procurement Disposal Units
PEFA	Public Expenditure and Financial Accountability Assessment
PER	Public Expenditure Review
PFM	Public Financial Management
PforR	Program for Results
PHC	Primary Health Care
PIP	Performance Improvement Plan
POM	Program Operational Manual
PP	Procurement Plan
PPDA	Public Procurement and Disposal of Assets Authority
PRSC	Poverty Reduction Support Credit
PSI	Policy Support Instrument
PS/ST	Permanent Secretary / Secretary to the Treasury
ROM	Results-Oriented Management
SBD	Standard Bidding Documents
SDR	Special Drawing Rights
SMC	School Management Committee
SORT	Systematic Operations Risk Rating
SPO	Senior Procurement Officer
SSA	Sub-Saharan Africa
T-PIP	Thematic Performance Improvement Program
TSA	Treasury Single Account
UgIFT	Uganda Intergovernmental Fiscal Transfer Program
UGX	Uganda Shilling
UHRC	Uganda Human Right Commission
ULC	Uganda Land Commission

UNDP United Nations Development Programme  
VAC Violence Against Children  
VfM Value for Money  
WDR World Development Report

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# REPUBLIC OF UGANDA

## Intergovernmental Fiscal Transfers Reform Program, (P160250)

### Table of Contents

	Page
<b>I. STRATEGIC CONTEXT</b>	<b>1</b>
A. Country Context	1
B. Sectoral (or multi-sectoral) and Institutional Context	2
A. Relationship to the CPF and Rationale for Use of Instrument	7
<b>II. PROGRAM DESCRIPTION</b>	<b>8</b>
A. Government Program	8
B. Program Development Objective/s (PDO) and key results	12
C. Program Scope	15
D. Disbursement Linked Indicators (DLIs) and Verification Protocols	18
E. Capacity Building and Institutional Strengthening	21
<b>III. PROGRAM IMPLEMENTATION</b>	<b>26</b>
F. Institutional and Implementation Arrangements	26
G. Results Monitoring and Evaluation	28
H. Disbursement Arrangements	28
<b>IV. ASSESSMENT SUMMARY</b>	<b>29</b>
A. Technical	29
B. Fiduciary	32
C. Environmental and Social	34
D. Risk Assessment	37
E. Program Action Plan	37
Annex 1: Detailed Program Description	39
Annex 2: Results Framework Matrix	51
Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols	59
Annex 4: Summary Technical Assessment	80
Annex 5: Summary Fiduciary Systems Assessment	97
Annex 6: Summary Environmental and Social Systems Assessment	111
Annex 7: Program Action Plan	119
Annex 8: Implementation Support Plan	121
Annex 9: Districts and Municipalities in Uganda	123
Annex 10: Performance-based Grants to LGs: International Experiences	124

### Tables

Table 1. The New Consolidated Grant Structure and the Grants Included in UgIFT Program Expenditure Framework .....	10
Table 2. Elements of the IFTRP and Related UgIFT Program Activities.....	10
Table 3. Program Summary Expenditure Framework .....	17
Table 4. Program Financing (US\$, millions).....	18
Table 5. Summary SORT .....	37

Table 1. 1. Program Support for Fiscal Transfers within the Overall GoU Program .....	41
Table 1. 2. Enhanced Formulae for Grants .....	44
Table 1. 3. Process for Managing the Assessment Process .....	48
Table 3.1. Verification Arrangements .....	59
Table 4.1. Value Chain: Aggregated Results Indicators.....	91
Table 4.2. Aggregated LG Non-Wage Recurrent and Development Expenditures .....	95
Table 9.1. Main Focus of Implementation Support .....	122
Table 9.2. Task Team Skills Mix Requirements for Implementation Support .....	122

## **Boxes:**

Box 1: The Institutional Framework for Decentralized Health and Education Services .....	3
Box 2. Uses of Increased Non-wage Recurrent and Development Grants .....	16

## **Figures**

Figure 1. Local Government Institutional Framework for Education and Health Service Delivery.....	3
Figure 2. Education and Health Transfers over Time (UGX, 2015 prices) .....	4
Figure 3. Disparities in LG Funding per Beneficiary in 2015/16 (UGX, thousands) .....	6
Figure 4. Summary of Local Governance and Financing in Uganda Prior to Reforms .....	7
Figure 5. Improvements in Adequacy under UgIFT.....	12
Figure 6. Reduced Disparities in Non-Wage Recurrent Grants.....	13
Figure 7. Three Results Areas Used to Group DLIs.....	19
Figure 8. Approach to Improving the LG Incentives and Capacities to Better Manage Resources.....	22
Figure 9. Performance Assessment and Incentives.....	23
Figure 10. Addressing Weak Performance through Performance Improvement Programs.....	24
Figure 11. IFTRP Management Structure.....	26

## PAD DATA SHEET

### *Republic of Uganda*

### *Uganda Intergovernmental Fiscal Transfers Program, (P160250)*

## PROGRAM APPRAISAL DOCUMENT

### *Africa Region*

### *Macro Economics and Fiscal Management Global Practice*

Basic Information			
Date:	June 6, 2017	Sectors:	Sub-National Government, Health, Primary Education, Secondary Education
Country Director:	Diarietou Gaye	Themes:	Economic Growth and Planning, Fiscal Policy, Public Administration
Practice Managers:	Abebe Adugna Dadi		
Regional Vice President:	Makhtar Diop		
Global Practice Vice President:	Jan Walliser		
Program ID:	P160250		
Team Leaders:	Anton Dobronogov Tim Williamson		
Program Implementation Period:	Start Date: June 27, 2017	End Date:	June 30, 2023
Expected Financing Effectiveness Date:	October 25, 2017		
Expected Financing Closing Date:	December 31, 2023		

Program Financing Data					
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input type="checkbox"/>	Other
<input checked="" type="checkbox"/>	Credit				



<b>For Loans/Credits/Others (US\$ Million):</b>							
Total Program Cost:	787.59	Total Bank Financing:				200.00	
Total Co-financing:	587.59	Financing Gap:					
<b>Financing Source</b>							
<b>Financing Source</b>				<b>Amount</b>			
BORROWER/RECIPIENT				587.59			
IDA				200.00			
Total				787.59			
Borrower: Republic of Uganda							
Responsible Agency: Ministry of Finance, Planning, and Economic Development							
Contact:	Mr. Keith Muhakanizi			Title:	Permanent Secretary / Secretary to the Treasury		
Telephone No.:	256-414-230290			Email:	keith.muhakanizi@finance.go.ug		
Responsible Agency:							
Contact:				Title:			
Telephone No.:				Email:			
<b>Expected Disbursements (in US\$, millions)</b>							
Fiscal Year	2018	2019	2020	2021	2022	2023	2024
Annual	40	40	40	40	40	0	0
Cumulative	40	80	120	160	200	200	200
<b>Program Development Objective(s)</b>							
To improve the adequacy and equity of fiscal transfers and improve fiscal management of resources by Local Governments for health and education services.							

<b>Compliance</b>			
<b>Policy</b>			
Does the program depart from the CPF in content or in other significant respects?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
Have these been approved by Bank management?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
Is approval for any policy waiver sought from the Board?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
<b>Overall Risk Rating: Substantial</b>			
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Fiscal Decentralization Steering Committee; Fiscal Decentralization Technical Committee  Schedule 2, Section I, C, 2 of the Financing Agreement		February 25, 2018	
For the purpose of providing oversight to the Program, the Recipient shall establish, by not later than four (4) months from the Effective Date, and thereafter maintain: (a) Fiscal Decentralization Steering Committee chaired by MoFPED, and comprising permanent secretaries of MoH, MoE, OPM, MoLG, LGFC, to be responsible for monitoring and ensuring achievement of DLIs, including dealing with any high level implementation issues; (b) Fiscal Decentralization Technical Committee, comprising technical representatives of the MoFPED, MoH, MoE, MoLG and LGFC, to be responsible for coordinating, at a technical level, the grant and assessment framework, and the interface between performance assessment, grant allocations and targeted technical support, and verifying, at a technical level, the achievement of DLRs.			
<b>Conditions</b>			
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>	
IDA	Program Operational Manual. Article 4, 4.01 of the Financing Agreement	Effectiveness	
<b>Description of Condition:</b> The Additional Condition of Effectiveness consist of the following, namely that the Recipient has prepared and adopted the Program Operational Manual referred to in Section I.C.4 of Schedule 2 to this Agreement.			

<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Withdrawal condition. Schedule 2, Section IV, B, 1 (a) of the Financing Agreement	Disbursement
<b>Description of Condition:</b> Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made (a) for purposes of Section 2.03 of the General Conditions (renumbered as such pursuant to paragraph 6 of Section II of the Appendix to this Agreement and relating to <i>Program Expenditures</i> ), for DLRs achieved prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 36,475,000 may be made for such DLRs achieved prior to this date but on or after July 1, 2016.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Withdrawal condition. Schedule 2, Section IV, B, 1 (b) of the Financing Agreement	Disbursement
<b>Description of Condition:</b> Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made (b) for any DLR until and unless the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved, including verification reports from the Verification Agent in accordance with procedures and arrangements and verification protocols, satisfactory to the Association.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Withdrawal condition. Schedule 2, Section IV, B, 2 of the Financing Agreement	Disbursement
<b>Description of Condition:</b> Notwithstanding the provisions of Part B.1(b) of this Section, the Recipient may withdraw: (i) an amount not to exceed SDR 36,475,000 as an advance; provided, however, that if any of the DLRs in the opinion of the Association, are not achieved by the Closing Date, the Recipient shall refund such advance to the Association promptly upon notice thereof by the Association. Except as otherwise agreed with the Recipient, the Association shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Association shall specify by notice to the Recipient.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Withdrawal condition. Schedule 2, Section IV, B, 3 (a - d) of the Financing Agreement	Disbursement
<b>Description of Condition:</b> Notwithstanding the provisions of Part B.1(b) of this Section, if any of the DLRs has not been achieved by the date by which the said DLR is set to be achieved, the Association may, by notice to the Recipient: (a) authorize the withdrawal of such lesser amount of the respective Allocated Amount(s) allocated to said DLR(s) which, in the opinion of the Association, corresponds to the extent of achievement of said DLR(s); (b) authorize subsequent withdrawals of all or portion of the Allocated Amounts for said DLR(s) upon the Recipient's achieving such DLRs at a later date; (c) reallocate all or a portion of the proceeds of the Allocated Amount for said DLR(s) to any other DLR(s); and/or (d) cancel all or a portion of the Allocated Amounts then allocated to said DLR(s).		

### Team Composition

#### World Bank Staff

Name	Title	Specialization	Unit
Anton Dobronogov	Senior Economist	Task Team Leader	GMF07
Tim Williamson	Senior Public Sector Specialist	Task team Leader	GGO19
Roland White	Lead Urban Specialist	Decentralization	GSU13
Elizabeth Ninan	Senior Education Specialist	Education	GED01

Peter Okwero	Senior Health Specialist	Health	GHN01
Marjorie Mpundu	Senior Counsel	Lawyer	LEGAM
Adrian Cutler	Lead Social Development Specialist	Social Safeguards	GSU07
Boyenge Dieng	Senior Social Development Specialist	Social Safeguards	GSU07
Sanjay Vani	Lead Financial Management Specialist	Public Financial Management	GGO31
Paul Kamuchwezi	Senior Financial Management Specialist	Public Financial Management	GGO31
Grace Munanura	Senior Procurement Specialist	Procurement	GGO01
Barbara Magezi Ndamira	Senior Public Sector Specialist	Governance & anti-corruption	GGO19
Diana Sekaggya-Bagarukayo	Education Specialist	Education	GED01
Steven Ajalu	Urban Specialist	Local Governments	GSU13
George Ferreira Da Silva	Finance Analyst	Finance	WFALA
Richard Carroll	Consultant	Results Framework	GMF07
Ronald Hoffer	Consultant	Environmental Safeguards	GENDR
Rogers Enyaku	Consultant	Health	GHN01
Lydie Ahodehou	Program Assistant	Administrative support	GMF07

## I. STRATEGIC CONTEXT

### A. Country Context

1. **Uganda has performed well in terms of economic growth and poverty reduction over the last decades, despite a recent slowdown.** Uganda is a low-income country with gross domestic product (GDP) per capita of US\$600 (2016). GDP growth has averaged more than 6 percent for the past 20 years. This growth can be attributed to macroeconomic stability, post-conflict rebound and pro-market reforms. This growth benefitted the poorest households, and during the last decade, Uganda managed to reduce the proportion of households living under international extreme poverty line faster than any other country in Sub-Saharan Africa (SSA). More recently the rate of economic expansion decelerated from an average of 7.6 percent a year during FY06-FY10 to 5.5 percent from FY11-FY15. This is because of external factors, inconsistent fiscal and monetary policies, a slowdown in the efforts by the Government to implement further reforms and low domestic revenue collection, which have created fiscal constraints for the Government. These constraints might ease when Uganda begins exporting oil, but the timing of this is uncertain.

2. **Concerns remain about economic mobility and social development, and a third of the population still lives below the poverty line.** The proportion of the Ugandan population living in poverty—whether measured using the national or international poverty line—more than halved from 1993 to 2013. The proportion of the population living under the national poverty line declined from 56.4 percent in 1993 to 19.7 percent in 2013. The proportion of households living beneath the international extreme poverty line of US\$1.90 a day (2011 prices) fell from 68.1 percent in 1993 to 34.6 percent in 2013. Despite this large improvement, there are a number of significant concerns. Uganda has not achieved universal access to reproductive health, nor reached its Millennium Development Goal (MDG) targets for maternal health and primary education. Forty-three percent of Ugandans are non-poor, but vulnerable, to fall back into poverty, defined as living below twice the national poverty line. For every three Ugandans who get out of poverty, two fall back in. Life expectancy is still low at 63 years and the fertility rate is among the highest in the world at 5.4 children per woman in 2015.

3. **There are large and increasing regional variations in poverty with most poor households concentrated in the north and the east.** In 2006, approximately 60 percent of the nation's poor lived in the northern and eastern parts of the country. Seven years later, this proportion increased to 84 percent. Progress, as captured by increasing consumption levels, has been much faster in the western and southern regions, which benefitted from an economic boom in Kampala and the surge in regional trade and the global markets. The northern and eastern regions further suffer from significant land degradation and vulnerability to climate change which exacerbates poverty.

4. **Public spending on social services, such as education and health, is low, even when compared with other low income countries (LICs).** The share of education in total public spending declined from 17 percent in 2007 to 15 percent in 2013, compared to the average of 16.6 percent for LICs and 16.7 percent for SSA countries. Over the same period, the share of education as a percent of GDP fell from 3.4 percent to 2.9 percent, compared to 4.2 percent for LICs and 4.0 percent for SSA countries. Health expenditure accounted for only 24 percent of total public

spending, compared to the average spent in LICs of 37 percent and the SSA countries of 44 percent. Overall public expenditure on health was 1.8 percent of GDP in 2014, among the lowest in SSA countries. Moreover, it declined from 3.3 percent of GDP in 2009 to 2.2 percent 2013. Declining spending in education has resulted in worsening education outcomes, and while health outcomes have improved in Uganda, they still remain far from international standards (see 2015 Systematic Country Diagnostic<sup>1</sup> for further details).

**5. The proposed Uganda Intergovernmental Fiscal Transfer Program (UgIFT) has high strategic relevance because it will address the binding constraint of low and inequitable levels of funding for health and education at the local level.** The UgIFT Program is based on a premise that improved local government financing of education and health services is a necessary condition for improved outcomes, but it needs to be complemented with sustained policy improvements and investment in health and educations sectors. Funding levels for social services in most local governments (LGs) are too low to achieve improvements in outcomes. Specifically, the Program addresses three constraints that have a major adverse impact on service delivery: (a) the large-scale horizontal inequities in the per capita amounts of transfers received by the LGs; (b) the inadequate level of per capita social expenditures in poorer LGs; and (c) the poor fiscal management of resources by LGs.

## **B. Sectoral and Institutional Context**

**6. In the context of the evolution of the decentralization of service delivery in Uganda, this section sets out the core justification of an operation focused on the size, distribution and management of fiscal transfers for LG health and education services.** In summary:

- The bulk of local government service delivery is funded via conditional transfers earmarked to sectors. In real per capita terms, these have declined significantly from peak years in the early 2000s.
- These transfers are distributed inequitably across local governments, negatively impacting less well funded to deliver health and education services.
- The fiscal management of resources for local service delivery has been undermined by low levels of funding for local government administrations, the complexity of administering a large number of earmarked transfers, institutional capacity constraints and a dearth of positive incentives for local governments to improve performance.

**7. Whilst there may be other factors beyond the size, distribution, and judicious management of fiscal transfers affecting health and education outcomes, these issues are critical for improving local service delivery in Uganda.** The Government of Uganda (GoU) is committed to addressing these problems and to fixing the fiscal transfer system overall, but it needs additional resources and institutional strengthening to implement its planned reforms and for those reforms to impact on service delivery.

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<sup>1</sup> Report No: 97145-UG, disclosed on December 15, 2015.

## Evolution of the Devolved Education and Health Service Delivery

### Box 1: The Institutional Framework for Decentralized Health and Education Services

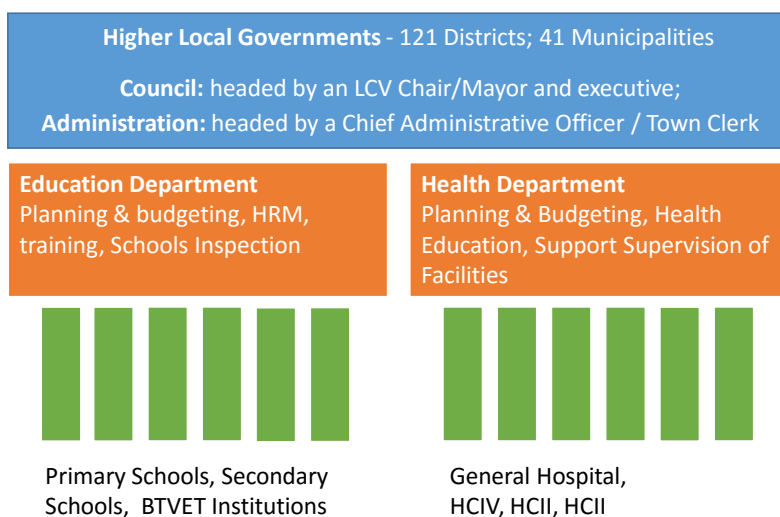
Higher local governments in Uganda include districts and municipalities and are responsible for delivering basic education and health services, as well as other services including water and sanitation, rural roads, agriculture, environment. In Financial Year 2017/18 there will be 162 higher local governments, made up of 121 districts and 41 municipalities.

In health and education, local government service delivery is managed and delivered as follows:

- Basic *education* services are delivered through a network of primary and secondary schools and technical, vocational education and training institutions. The district/municipal education department oversees and monitors these services. The department includes inspectors responsible for inspecting all public and private educational establishments.
- Basic *health* services are delivered through a network of health facilities, which include Health Centre (HC) Level IVs, which are headed by a doctor and HC Level IIIs, which are headed by a nurse. These provide outpatient and basic inpatient services. HC Level IIs, which are small dispensaries, provide outpatient services. In addition, some Districts run general hospitals. The district/municipal health department oversees this network of health facilities and also carries out public health activities.

Higher LGs are also responsible for appointing, promoting and transferring health workers and primary teachers (secondary and Business, Technical, Vocational Education and Training (BTJET) teachers are managed centrally) and for managing the associated payrolls. Decision-making by LGs involves substantial citizen participation. In particular, LGs carry out participatory planning to involve relevant stakeholders. Moreover, LGs have promoted sector committees (health, education, and so on) with an appropriate gender balance at each of the different levels of the local government system and at the facility level.

**Figure 1. Local Government Institutional Framework for Education and Health Service Delivery**



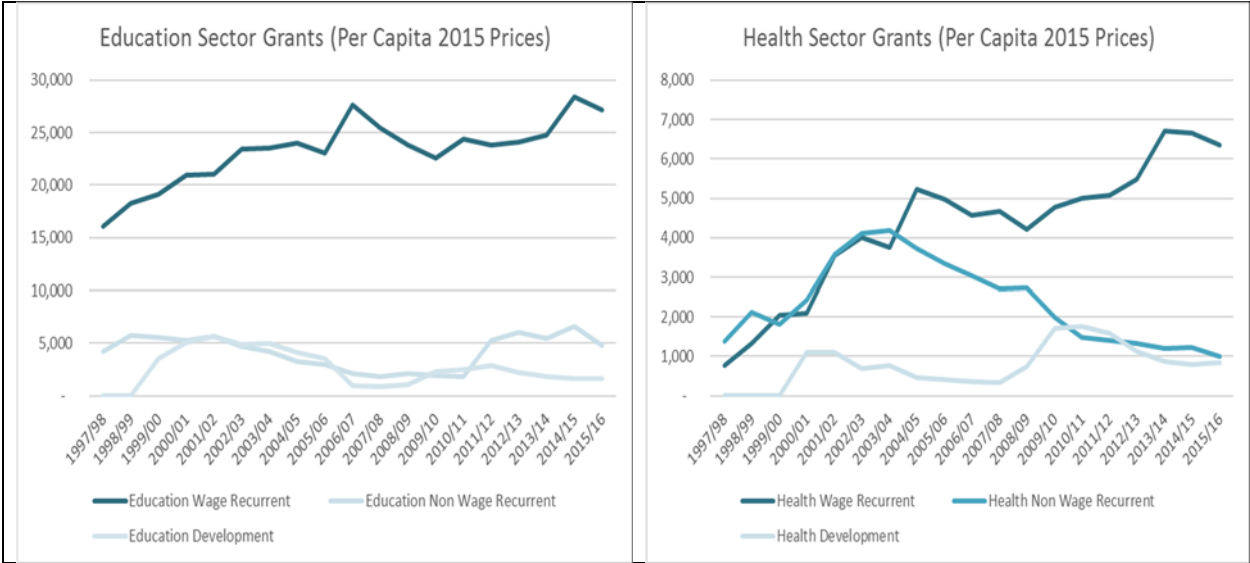
The ministries of health and education and other sector line ministries are responsible for policy, guidance and oversight of local government service delivery. The Ministry of Finance, Planning and Economic Development (MoFPED), and the Local Government Finance Commission (LGFC) are responsible for the coordination of resource allocation and management of fiscal transfers. The Ministry of Local Government (MoLG) is responsible for the decentralization policy, whilst the Office of the Prime Minister (OPM) is responsible for coordinating the monitoring and evaluation of central and local government programs.

8. **The current framework for local government education and health service delivery was introduced in the mid-1990s.** Participatory local democracy was a key political priority of

the National Resistance Movement (NRM) Government from when it came to power in 1986. The responsibility of local governments to deliver basic health and education were embedded in the 1995 constitution and the 1997 Local Government Act, which established a system which was highly decentralized along political, administrative and fiscal lines. District and Municipal Local Governments were responsible for basic healthcare services and delivery of primary, secondary education and skills development. Alongside this, an agenda to expand service delivery emerged, including the introduction of free Universal Primary Education in 1997 and later free basic healthcare in 2000.

9. **Despite the highly decentralized framework, the expansion of funding for basic service delivery was channeled as conditional transfers instead of unconditional grants.** These earmarked grants were expanded rapidly from 1998 fueled by HIPC debt relief and donor budget support. MoFPED wanted to demonstrate, and donor partners wanted to see the impact of this additional funding on allocations to service delivery. Therefore, conditional grants were used to expand allocations, via a mechanisms called the Poverty Action Fund (PAF). MoFPED also committed to protecting budget disbursements for conditional grants funded from the PAF, which it has maintained to this day. At the outset in 2007, sectoral conditional grants represented more than 75 percent of the LGs transfers from national government, and by 2015/16 the share was 85 percent.

**Figure 2. Education and Health Transfers over Time (UGX, 2015 prices)**



Source: MoFPED, UBOS, 2016

10. **The number of conditional grants rapidly proliferated from 10 in 1997/18 to 27 in 2000/01. By 2014/5 there were 46 grants.** The amounts of such transfers to individual districts were based on a mixture of historical practices and allocations, needs-based or ad hoc formulae, input conditions and other haphazard considerations. The system soon became highly complex and fragmented. The system provided little discretion, and imposed a significant administrative burden on local governments. Grants also focused on funding service delivery inputs, and not the management of service delivery. The system also reinforced the vertical relations between sector ministries and local government departments. In parallel, locally raised revenues were undermined



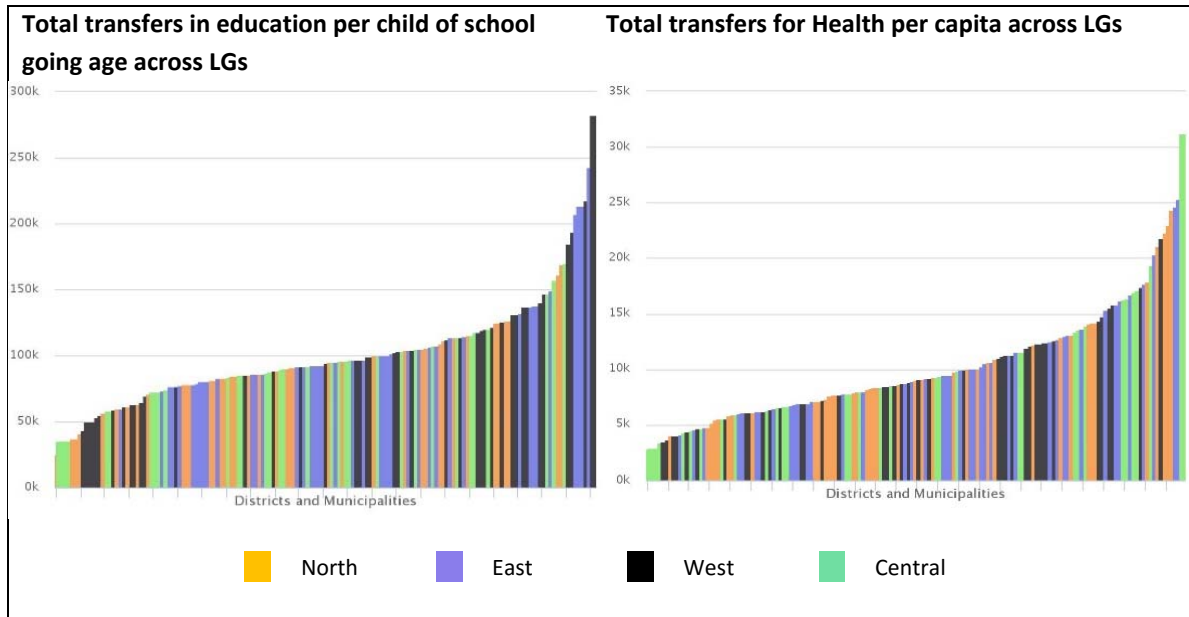
in the 2000 elections and subsequently never recovered. The system that emerged was thus not in the original spirit of decentralization.

11. **In contrast to the increasingly earmarked financing system an innovative system of performance-linked development grants was rolled out to local governments from 2001.** The Local Government Development Program (LGDP), which used a combination of discretionary development grants linked to performance, proved an effective way of leveraging improved local government capacity and institutional performance and delivering investments.

12. **The Government acknowledged the increasing complexity of the financing system, and developed the Fiscal Decentralization Strategy (FDS) in 2002.** The strategy aimed to streamline the system of transfers and introduce greater local discretion within a common framework of budgeting and reporting for transfers, anchored in the LG budget process. It also aimed to build on the experience of LGDP. However, the introduction of the FDS coincided with a shift in political and budget priorities towards economic infrastructure and away from spending on basic service delivery. This undermined the momentum in implementation of the FDS. The effectiveness of the performance-linked development grants under LGDP and the associated assessment process diminished over time.

13. **In the mid-2000s, transfers began to decline in real per capita terms, as a consequence of the changing government priorities.** Transfers were kept constant in nominal terms, and the combination of rapid population growth and inflation gradually eroded their value. Allocations in education were further compressed with the introduction of Universal Secondary Education in 2006. From 2010 wage transfers for teachers and health workers recovered, keeping pace with population growth and inflation, however other allocations continued to be eroded. This has cumulatively resulted in a substantial decline in the real value of operational funding for schools and clinics. By 2015/16, non-salary recurrent transfers declined by 51 percent per capita in primary education and 65 percent in health from their peaks in the 2000s (see Figure 2). Development grant allocations also declined significantly in the late 2000s. There were increases in development allocations from 2009/10, however, for districts in northern Uganda recovering from conflict, following peace in the late 1990s. Excluding the latter, development transfers declined in real terms by 89 percent in primary health and sanitation services and 78 percent in primary education.

**Figure 3. Disparities in LG Funding per Beneficiary in 2015/16 (UGX, thousands)**

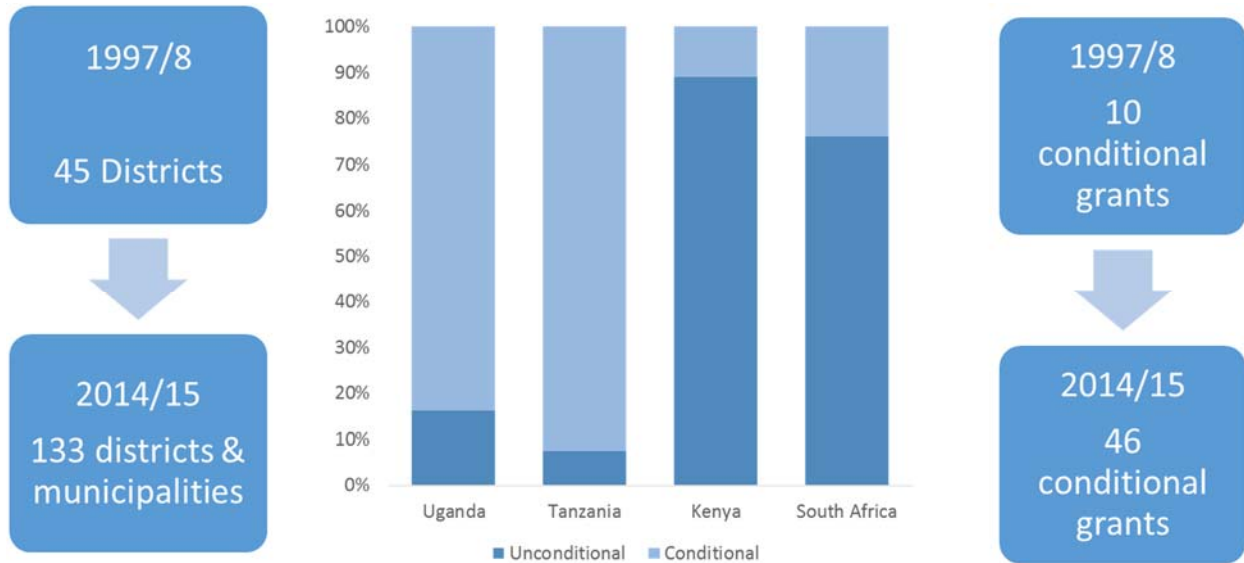


Source: OTIMS, 2016

14. **As a result of the increasingly fragmented and ad-hoc system of LG transfers, large horizontal disparities emerged in the value of transfers across local governments over time.** By 2015, public spending per capita on health and per child in education were over 10 times higher in some districts compared to others. In 2014/15, the ratio of average spending (fiscal transfers) on health and education per beneficiary in the ten best funded LGs compared to the ten worst funded LGs, was 7.0 and 7.2 respectively (Figure 3). For some LGs, this skewed allocation meant providing education services at a per capita cost of less than UGX 10,000 (US\$3) per year. The horizontal disparities in the size of grant allocations contributed to disparities in health and education outcomes. For example, the share of babies delivered in public health facilities varies from 4 to 94 percent, and the number of students per primary school teacher varies from as low as 32 to as many as 100 across districts.

15. **The impact of these disparities on service delivery is amplified by institutional deficiencies.** About one third of positions in local governments are currently vacant, and the share of vacancies varies a lot across LGs. On the administrative and political side, local councils are elected and exercise a certain degree of authority over local civil service staff. However, districts' chief administrative officers are appointed by the central government. In addition, the number of local governments has increased significantly over the past decade. The number of districts and municipalities increased from 45 in 1997 to 133 in 2014 and to over 160 in 2016 (see Figure 4). This has led to an increase in the cost of administering local service delivery and has spread institutional capacity thinly.

**Figure 4. Summary of Local Governance and Financing in Uganda Prior to Reforms**



Source: MoFPED, 2015.

### C. Relationship to the CPF and Rationale for Use of Instrument

16. **The UgIFT Program will support two FY16 - FY21 CPF<sup>2</sup> objectives: “Enhancing Economic Governance and Fiscal Management” and “Improving Social Service Delivery.”** The UgIFT Program will support the reduction in horizontal inequities in per beneficiary spending on social services across districts, which will contribute to improved social service delivery as measured by the CPF objective indicators increased “gross enrollment rate in lower secondary schools” and increased percent of “deliveries with skilled attendants,” by providing additional funding to LGs and creating incentives for improved performance. The UgIFT Program will also support the achievement of the CPF objective indicator for better economic governance and fiscal management by reducing “the ratio of average spending per capita between ten best-funded and ten worst-funded districts” in the health and education sectors. The Program’s focus on improving the financing of service delivery, enhancing value for money (VfM), and reducing inequities in public spending on social services will help to achieve the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. Reducing such inequities will also enhance efficiency of social spending as it will help to level the field in future labor markets and reduce migration driven by such inequities rather than by labor demand. The UgIFT Program’s focus on support to intergovernmental fiscal transfer reform implementation will contribute to closing the “implementation gap,” an issue identified in the CPF as one of the main challenges faced by the country.

17. **The CPF emphasizes the importance of equity in spending especially in underserved rural areas and in the North and East, which this operation will help address.** There is significant inequality between regions, and between rural and urban areas in Uganda. The

<sup>2</sup> Report No. 101173-UG, disclosed on April 26, 2016

sustained conflict in the North held the region back several years, resulting in slower increases in incomes and high poverty levels. In 2006, approximately 60 percent of the poor lived in the northern and eastern parts of the country. Seven years later, this proportion increased to 84 percent. The differences in welfare between rural and urban areas are similarly pronounced in income, as well as non-income dimensions. As underscored in the 2009 World Development Report “Reshaping Economic Geography”, reducing spatial disparities in financing and provision of health and education services is one of the most important instruments for addressing these problems. Increasing public spending on these services in underserved areas will also help Uganda to accelerate the demographic transition from high to low levels of mortality and fertility, also a development priority emphasized in the CPF.

18. **A Program for Results (PforR) has been identified as the most appropriate instrument for addressing the challenges related to the implementation of the intergovernmental fiscal transfer reform over a five-year period.** The operation will also support the institutional strengthening of government systems both at the central level and local level through establishing a performance assessment, incentivizing performance, and implementing a system of targeted performance improvement programs for LGs. The UgIFT Program will go beyond increasing the size of the resource flows to LGs and improving the equity in the allocation of those resources. It will also incentivize a judicious fiscal management of those resources at the local government level, supporting targeted performance improvements in those LGs that are performing poorly on performance assessment scores.

## **II. PROGRAM DESCRIPTION**

### **A. Government Program**

19. **The Intergovernmental Fiscal Transfer Reform Program (IFTRP) has been developed to address the challenges in the functioning of the national government’s financing of local government service delivery.** The IFTRP has five objectives:

- Increasing discretion over allocation decisions to enable LGs to deliver services in line with local needs while ensuring that national policies are implemented.
- Restoring adequacy and equity in allocation of funds for service delivery.
- Shifting the focus away from fragmented input-based conditions toward accountability for budgetary allocation decisions, expenditures, and results.
- Using the transfer system to lever institutional and service delivery performance.
- Allowing new national policies to be funded via the transfer system, whilst avoiding future fragmentation of transfers and reduction in discretion.

20. **The IFTRP furthers the implementation of the GoU’s Fiscal Decentralization Strategy (FDS) and Second National Development Plan 2015/16-2019/20 (NDP-II).** The FDS was adopted by Cabinet in 2002 to address concerns about increased fragmentation and reduced discretion in LG financing. The FDS seeks “to strengthen the process of decentralization in Uganda through increasing local governments’ autonomy, widening local participation in decision-making and streamlining fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments in service delivery.” The implementation of the FDS

required additional resources. However, the shift of budget priorities towards economic infrastructure since the mid-2000s meant that FDS was implemented only to a limited extent, which in turn made it more difficult for the LGs to fulfill their mandates. The IFTRP is under the purview of the Minister of Finance, Planning and Economic Development, anchored in the NDP-II and the FDS (approved by the Parliament and the Cabinet, respectively).

**21. The FDS agenda was given renewed impetus by Uganda's Second National Development Plan (NDP-II) 2015/16-2019/20.** In response to the declining trends in LG financing, the NDP-II includes objectives to “increase financing and revenue mobilization of [LGs] to match the functions of [LGs]” which commits the Government to “redesign the fiscal decentralization architecture to provide for adequate and sustainable local government financing” and “review grants allocation formulae to promote adequacy in financing of decentralized service[s]” (NDP II, p. 235).

**22. An interim step prior to the development of the IFTRP, took place in 2015-16, with the consolidation of the earmarked transfers.** Under the consolidation, the number of earmarked transfers to LGs was reduced from 46 to 20. This consolidation was a necessary first step because it helped increase LGs' flexibility in the use of their fiscal resources, and opened the way to developing rational formulae for the allocation of the grants. It was also intended to reduce transaction costs associated with the grants planning and monitoring. It has also made the reform process more transparent and understandable for the LGs.

**23. The IFTRP covers all fiscal transfers to LGs which together fund the bulk of local administrative costs and service delivery in six sectors and account for 3.4 percent of GDP.** These sectors include agricultural production and marketing, works and transport, education, health, water and environment and social development. There are up to three conditional grants per sector (Table 1). Within this, UgIFT will focus on health and education sector expenditures on conditional non-wage recurrent and development transfers.<sup>3</sup>

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<sup>3</sup> The approach for improving the equity of wage transfers has yet to be agreed. Formula based wage transfers are more complex to implement because their implementation depends to much greater extent on the issues external to the transfers system, such as public sector employment regulations, establishment structures, incentives for attracting qualified staff to jobs in hard to reach / hard to stay areas, and so on.

**Table 1. The New Consolidated Grant Structure and the Grants Included in UgIFT Program Expenditure Framework**

Grants Supported by UgIFT			
Category / Sector	Grant		
	Recurrent		Development
<b>Sector Conditional Grants</b>			
Health	Wage	Non-Wage	Development
Education	Wage	Non-Wage	Development
Production and Marketing	Wage	Non-Wage	Development
Water & Environment		Non-Wage	Development
Works & Transport		Non-Wage	Development
Social Development		Non-Wage	
<b>Ad Hoc Conditional Grants</b>			
Support Services		Non-Wage	
Transitional Development			Development
<b>Discretionary Grants</b>			
Unconditional	Wage	Non-Wage	
Discretionary Dev't Equalization			Development

24. **The IFTRP has three complementary dimensions to support the achievement of its objectives.** These are set out in Table 2.

**Table 2. Elements of the IFTRP and Related UgIFT Program Activities**

Elements of the IFTRP (Government's program)	Activities of UgIFT (the Program)
<p><b>1. Redesigning sectoral and discretionary transfers within a consolidated grant framework.</b></p> <p>i. The development of objective and equitable allocation formulae for all sector conditional grants and discretionary grants within a consolidated grant framework, following the rationalization of all sector conditional grants; and the merging of equalization and regional development grants.</p> <p>ii. The establishment of sectoral budget requirements instead of grant based input conditions.</p> <p>iii. The establishment of a transparent, rules based systems for management of LG transfers by central government.</p> <p>iv. The preparation of grant guidelines using a common approach for all grants</p>	<p>Finalization of design of conditional grants in the education and health sectors and associated revisions to guidelines for LGs and Facilities. Supporting implementation of redesigned conditional grants in the education and health sectors, including phasing in modifications of their allocation formulae.</p> <p>Strengthening of the management of fiscal transfers by MoFPED and the Ministries of Education and Health.</p>
<p><b>2. Reviewing the fiscal decentralization architecture and estimating the cost of adequately financing those mandates relative to the overall budget.</b></p> <p>i. Reviewing LG mandates and estimating the cost of adequately financing those mandates relative to the overall budget.</p>	<p>Supporting the adequacy of health and education financing through providing finance for the implementation of the medium-term plan for uplifting transfers in health</p>

Elements of the IFTRP (Government’s program)	Activities of UgIFT (the Program)
ii. Reviewing the overall legal and policy framework for local government revenues and expenditures and recommending changes	and education.
<p><b>3. Establish a framework of performance incentives in the grant system to lever improved institutional and service delivery performance and accountability.</b></p> <p>i. Establishment of a three level performance assessment framework which assesses a) adherence to adequate core budgetary and accountability requirements; b) core and sectoral institutional performance; and c) facility performance.</p> <p>ii. Introducing performance incentives, including rewarding those local governments which plan for and implement programs well, in adherence to the legal and policy framework, and sanctioning those which do not.</p> <p>iii. Establishing a framework of “performance improvement programs” which target action to improve performance in LGs and areas which where performance is weak.</p>	<p>Implementation and refinement of the annual assessment process of LGs, linking of grant allocations to health and education to performance assessments, and carrying out VfM audit for the LG expenditures financed through the grants.</p> <p>Development and implementation of the Performance Improvement Programming Framework for LGs.</p>

25. **The first dimension of the IFTRP involves consolidating and redesigning sectoral and discretionary transfers to LGs.** This includes developing more objective and equitable allocation formulae within agreed principles and guidelines which focus on the performance and accountability of LGs, rather than on input-based conditions. Formulae have been developed for non-wage and recurrent grants to reduce horizontal inequity (for example, seeking to reduce inequities in per capita funding in the health and education sectors whilst also catering for other factors such as the variable costs of delivering services). New sector grant guidelines have also been developed. Grant input-based conditions have been replaced by sectoral performance budgeting and accountability requirements to promote a more efficient management of resources by LGs. Revisions to sector guidelines for facilities and for required infrastructure investments are also planned.

26. **The second dimension involves estimating the cost of adequately financing LG service delivery mandates relative to the overall budget and reviewing the fiscal decentralization architecture.** This involves estimating the cost of fully funded capitation grant policies at the school level nationwide, and of adequately funding health facilities for their operational costs, for example. This will be followed by a review of the fiscal architecture governing overall budget allocations to LG transfers and local revenue assignments.

27. **The third dimension involves introducing a framework of performance incentives in the grant system and targeted performance improvement to drive improved institutional and service delivery performance and accountability.** This involves assessing LG institutional and service delivery performance at three levels: (a) adherence to adequate budgeting and accountability requirements; (b) core and sectoral institutional performance; and (c) facility performance. An LG Performance Assessment Manual has been drafted and performance assessments have been piloted. The results of the performance assessments will help inform the appointment of accounting officers and be linked to the size of development grants. The reform will also involve the establishment of a mechanism of targeted support to poorly performing LGs through the agreement, validation, and implementation of performance improvement programs.

28. **IFTRP sets out institutional arrangements to manage the strengthened process and systems being established.** The approach involves consolidating and strengthening existing

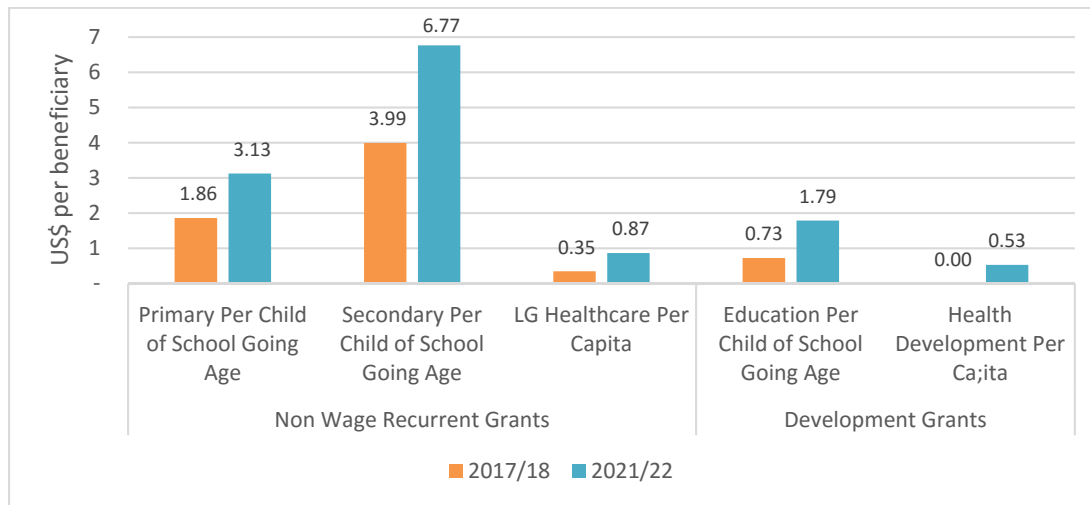
institutions and coordination mechanisms to deliver the reform, rather than the creation of parallel processes. This includes a high level FD Steering Committee, an FD Technical Committee, and a series of task forces dealing with grant management, assessment and targeted support.

29. **As part of the IFTRP, a medium-term plan for uplifting intergovernmental fiscal transfers is being developed, covering all grants to LGs.** Implementation of the plan over several years will enable the phased implementation of the new non-wage recurrent and development allocation formulae and the restoration of the adequacy of funding for service delivery. MoFPED has developed an Online Transfer Information Management System (OTIMS)<sup>4</sup> to ensure transparency and rules-based implementation of the new formulae. The additional administrative costs of managing the transfers, carrying out performance assessments and targeted performance improvement plans have also been costed as part of the IFTRP medium-term plan.

**B. Program Development Objective/s (PDO) and key results**

30. **The Program Development Objective (PDO) is *To improve the adequacy and equity of fiscal transfers and improve fiscal management of resources by Local Governments for health and education services.*** Addressing the amount and distribution of resources is necessary but not sufficient to significantly improve Education and Health sector outcomes. The same can be said of management of these resources to ensure the processes and systems governing their use are efficient. The overarching objective of this Program is to establish the preconditions for subsequent education and health reforms directly impacting sector outcomes.

**Figure 5. Improvements in Adequacy under UgIFT**



Source: MoFPED, 2017.

31. **The first dimension of UgIFT will deliver results on *enhancing adequacy of fiscal transfers for education and health services from the Central Government.*** International Development Association (IDA) resources will help to secure the required annual increases in LG health expenditures:

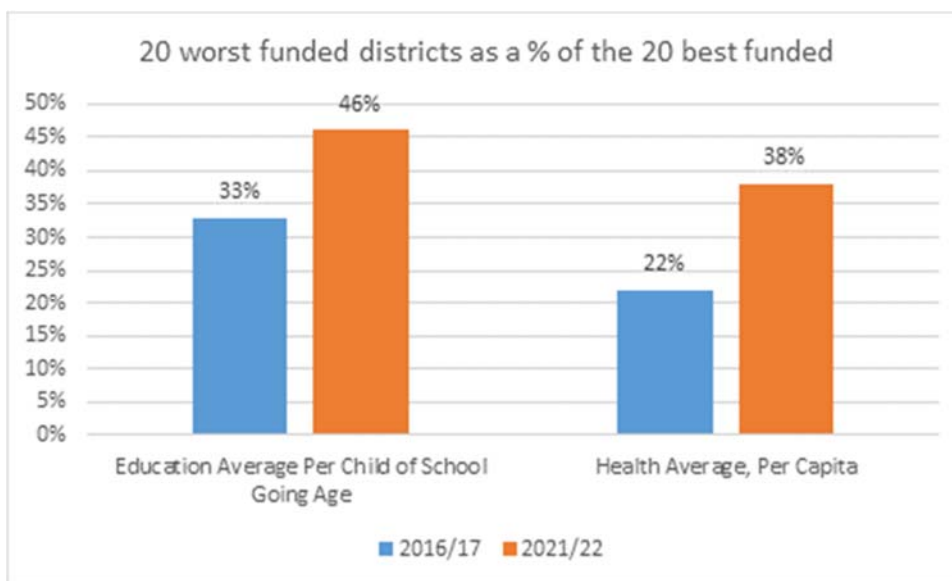
<sup>4</sup> See [www.budget.go.ug/fiscal\\_transfers](http://www.budget.go.ug/fiscal_transfers).



- Annual increase in sector conditional grants (wage, non-wage recurrent, and development) to LGs for education (four-year moving average) will reach 7.5 percent by 2021/22.
- Annual increase in sector conditional grants (wage, non-wage recurrent, and development) to LGs for health (four-year moving average) will reach 13.25 percent by 2021/22.

Figure 5 illustrates the projected impact of these increases on the Program expenditures per beneficiary.

**Figure 6. Reduced Disparities in Non-Wage Recurrent Grants**



Source: MoFPED, 2017.

32. **The second dimension of the Program will deliver results on *enhancing equity of fiscal transfers for education and health services*.** The additional funding will be targeted to the least funded LGs using objective and equitable allocation formulae. This will achieve the following results over the lifetime of the project (Figure 6):

- For the education non-wage recurrent conditional grant, which supports the running costs of schools, allocations per child of school-going age for the 20 least funded districts will increase from 33 percent to 46 percent of the levels allocated to the 20 best funded. For the education development grant, which funds the equipping, rehabilitation and construction of school infrastructure, 21 percent of development grant transfers will be provided to the 30 least funded districts.
- For health sector non-wage recurrent conditional grant which, among others, supports the running costs of health facilities, per capita allocations for the 20 least funded districts will increase from 22 percent to 38 percent of the levels allocated to the 20 best funded. For health sector development grant, which funds the equipping, rehabilitation and

construction of health infrastructure, 35 percent of development grant transfers will be provided to the 30 least funded districts.

33. The target ratios for reducing the horizontal inequities in allocations per beneficiary were chosen in a way consistent both with the new formulae for the grants and with the planned enhancement of their adequacy, which, in turn, is consistent with the Program's expenditure framework and with the GoU's plan for uplifting transfers. These ratios are more conservative compared to what the projected allocations according to the formulae would imply, to allow for an impact of unforeseen change in the variables affecting the allocations.

34. **The third dimension of the Program will deliver results in terms of *improvement in fiscal management of education and health services delivery by LGs as their resources are being increased*.** Enhanced fiscal management of resources is achieved through the introduction of an organizational performance assessment system; creating incentives through linking grant allocations to the results of the performance assessment; and targeted performance improvement programs.

35. **The third dimension targets the procedures and systems used by LGs to efficiently manage fiscal resources for education and health services.** It does not purport to directly change sector outcomes. Rather it should be viewed as necessary action which will focus specifically on outcomes. It establishes managerial preconditions for improving access to health and education services, quality service delivery and quality infrastructure. Significant improvements in education and health outcomes – among others, access to primary schools, reduced repetition and drop out, improved learning and pass through to higher levels and access to well-staffed and resourced clinics and hospitals which follow accepted medical protocols—will require additional Government programs.

36. **Beyond the development objectives of UgIFT, it is envisaged that more equitable, adequate and efficient financing of health and education services will ultimately lay the foundation for improved service delivery outcomes.** In doing so it will complement other sectoral programs including World Bank operations in health and education and planned governance operations. The impact of UgIFT on service delivery outcomes will depend on these operations, as well as other interventions. The final beneficiaries of UgIFT will be consumers of health and education services at the local level. Those who will benefit the most will be those living in the most underfunded districts and municipalities.

37. **Results achieved by the Program are likely to be sustained after its completion.** The results related to adequacy of financing are likely sustainable because increase in transfers to local governments will be financed primarily with the GoU own resources. The annual increase in government financing during the period covered by the Program will be approximately equal to the annual disbursement of IDA funds, and the share of IDA funding in the Program expenditures is expected to decline from 44.5 percent during the first year of Program implementation to 19.2 percent during the last year. The results related to equity of financing are likely to be sustained because by the end of the Program, formulae for the grants will be fully phased in, so that they could be reasonably expected to be followed in the future. Similarly, the system for improving institutional capacities and incentives of the LGs to manage their resources is expected to be fully operational and well tested by the end of the Program period.

### C. PforR Program Scope

38. **Within the overall GoU program, the IFTRP, which covers all decentralized services, UgIFT will focus on the health and education sectors.** In doing so it will support activities in the three dimensions of the reform program focusing on health and education (see Table 2), in summary as follows:

- Finalizing design of conditional grants in the education and health sectors, including making associated revisions to guidelines to the conditional grant guidelines.
- Supporting implementation of redesigned conditional grants in the education and health sectors, including phasing in their allocation formulae.
- Strengthening of the management of fiscal transfers by MoFPED and the Ministries of Education and Sports (MoE), and the Ministry of Health (MoH).
- Enhancing the adequacy of health and education financing through providing finance for the implementation of the medium-term plan for increasing budget allocations to the transfers for health and education.
- Implementing and refining the annual assessment process of LGs, linking of grant allocations for health and education to performance assessments and carrying out value for money audits for LG spending financed by the grants.
- Developing and implementing a new Performance Improvement Programming Framework for LGs.

39. A detailed Program description is provided in Annex 1. Box 2 describes uses of increased non-wage recurrent and development grants for which UgIFT will provide additional funding.

40. **UgIFT will support the implementation of new, simple and transparent formulae for education and health non-wage conditional grants to improve equity of allocation across LGs.** A set of principles for the formulae has been established, which includes ensuring allocations: (i) match resources to the target population to reduce disparities in per capita spending; (ii) capture any major differences in needs and costs; and (iii) ensure a balance between these factors. Following the establishment of these principles, extensive consultations took place between the line ministries, MoFPED, LGs and LGFC, and the formulae were developed and approved by the ministries of health and education. In addition to enhancing equity of allocations to the LGs, they will also include performance-based components which will allocate greater share of resources to better performing LGs *within* three broad bands of low-funded, medium-funded, and best-funded groups. Releases will be made in full to all LGs, although central government may choose to withhold releases to those LGs, which do not meet basic accountability requirements (see Annex 1).

## **Box 2. Uses of Increased Non-Wage Recurrent and Development Grants**

The purpose of the **non-wage recurrent grants** in health and education is to fund the operational costs of schools and health facilities and the district/municipality management and oversight of service delivery. The *share transferred to facilities* include:

- For education: capitation grants for primary, secondary and BTVET institutions, with allocations based on the enrollment in each institution
- For health: operational transfers for the different categories of health facilities. Currently the allocations are largely fixed.

Budget requirements set out the policies and principles for allocating funds to health and education facilities. The share of grants allocated to facilities is transferred directly to schools and health facilities from MoFPED. Increased grant allocations going forward will enable the roll out of results-based financing, linking the allocation of funds to facilities according to their performance.

The share retained for *district/municipality* includes:

- For education: oversight of schools, management of teachers and school inspection.
- For health: preventative healthcare, health promotion and the management of health workers and oversight of facilities.

The primary purposes of sector **development grants** are to fund the rehabilitation, upgrading and construction of schools and health facilities. This involves:

- For education; the renovation, construction and equipping of classrooms, latrines, laboratories and teachers housing.
- For health: the renovation, construction and equipping of buildings at health facilities, including outpatient departments, wards, theatres, drug stores, health worker housing. The focus will be on filling gaps in infrastructure in existing HCIIIs and HCIVs and where appropriate upgrading facilities.

A share of grants can also be used for capacity development, to help improve local government management and service delivery performance. Development grants are managed at the district/municipal level by the education and health departments.

### **41. UgIFT resources will not finance wage transfers, as the approach and plan to apply formula based transfers and the formulae themselves have yet to be developed and agreed.**

The reform to improve the equity of wage grants for health and education through development of formulae has proved more complex than non-wage recurrent and development grants, and the phase-in plan for these grants has yet to be approved. For example, staff allocations are based on establishment structures which should be approved by the Ministry of Public Service on the advice of sector ministries. Positions in those structures may not exist in areas with low levels of staffing and fewer facilities. This makes implementing the formula based wage grants more challenging. The Government is working on a solution to this, with the intention to start implementing in 2019/20. As a result, the UgIFT will not directly support the improvement of equity in wage transfers, although disbursement linked indicators (DLIs) relating to addressing the adequacy of fiscal transfers provide space for wage increases from FY19-FY20 onwards, once an approach to improving equity has been agreed.

**42. The Program will provide additional resources to ensure that adequacy of funding is improved for the worst off districts without reductions in nominal per capita funding in better funded areas.** This addresses the key concern of both the health and education sectors. Additional resources will be allocated to those LGs below their formulae share. To ensure that non-wage recurrent funding for existing facilities is not reduced, allocations to those LGs receiving more than their formula share will be kept constant (“do no harm”). For development grants, the

formula has already been implemented in full for education and will be implemented in full from 2018/19 for health. The Program will enhance budgetary resources for implementing the medium-term plan, delivering resources commensurate with the required annual increase in budget allocation to sector conditional grants.

43. **The Program will also help to improve the fiscal management of resources by LGs for service delivery in health and education.** Uganda has a relatively sophisticated system of budgeting and reporting, and LGs comply in a routine sense. This includes reporting actuals against budget, and performance against plans, following a standard budget structure and set of performance indicators. Revised sector grant guidelines, including those in health and education, set out budget requirements which establish how LGs should prepare health and education budgets within this framework, along with accountability requirements. As part of this Program, manuals, procedures and staffing requirements relevant to health and education grants, schools and health facilities, and associated investments will be updated to mitigate technical, fiduciary, social and environmental risks related to the Program, and disseminated.

44. **An annual performance assessment system for LGs will be introduced.** This performance assessment system will assess adherence to budget and accountability requirements and the fiscal management of resources for health and education. It covers a) planning, budgeting and execution; b) human resource management; c) oversight, transparency, and accountability; d) revenue mobilization; e) procurement and contract management; f) financial management; and g) social and environmental safeguards. The results will be used to incentivize better fiscal management of resources at the LG-level through feeding back the performance score to grants allocations. To limit the endogenous inequity that may arise from such a link, this will be complemented by development of a system of targeted support to poorly performing LGs to improve their performance (details on the LG targeted performance improvement plans will be provided in Program Operational Manual (POM).

### **Program Financing and Expenditure Framework**

45. **The Program’s expenditure framework is a subset of the Medium Term Plan for raising transfers through the IFTRP (Table 3).** Ninety-four (94) percent of the planned expenditures relate to the cost of phasing in the formula and increasing transfers for education and health non-wage recurrent and development grants. The remainder represents the cost of the management of the transfer system, and the annual assessment and targeted support to underperforming local governments. Total government grants to the health and education sectors in the Medium Term Expenditure Framework (MTEF) for 2017/18-2021/22 account for 8.5 percent of total government expenditures.

**Table 3. Program Summary Expenditure Framework**

<b>Grant Allocations</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Total</b>
<b>Total Education</b>	<b>263.89</b>	<b>349.75</b>	<b>431.63</b>	<b>481.25</b>	<b>526.64</b>	<b>2,053.18</b>
Education Sector Non-Wage Recurrent Grant	231.38	290.89	337.50	381.11	422.51	1,663.39
Education Sector Development Grant	32.51	58.86	94.14	100.14	104.14	389.79
<b>Total Health</b>	<b>47.07</b>	<b>118.69</b>	<b>147.87</b>	<b>176.04</b>	<b>203.14</b>	<b>692.81</b>
Health Non-Wage Recurrent Grant	47.07	68.43	86.61	107.78	129.88	439.77

Health Sector Development Grant	0.00	50.26	61.26	68.26	73.26	253.04
<b>Total Management, Assessment &amp; Support</b>	<b>8.00</b>	<b>10.50</b>	<b>10.50</b>	<b>10.50</b>	<b>10.50</b>	<b>50.00</b>
<b>GRAND TOTAL (UGX billions)</b>	<b>318.95</b>	<b>478.94</b>	<b>590.00</b>	<b>667.79</b>	<b>740.28</b>	<b>2,795.96</b>
<i>IDA Resources (UGX billions)</i>	143.18	141.80	141.85	141.84	141.83	709.99
<i>GoU Resources (UGX Billions)</i>	175.77	337.14	448.15	525.95	598.45	2085.97
<b>GRAND TOTAL (US\$m)</b>	<b>89.10</b>	<b>135.09</b>	<b>166.38</b>	<b>188.30</b>	<b>208.72</b>	<b>787.59</b>
<i>IDA Resources (US\$m)</i>	40.00	40.00	40.00	40.00	40.00	200.00
<i>GoU Resources (US\$m)</i>	49.10	95.09	126.38	148.30	168.72	587.59

46. **The cumulative Program size--which includes the LG grants, management, assessment and support over the five years--will be UGX 2,795.96 billion (US\$787.59 million), of which 25.3 percent will be funded from IDA resources** (Table 4). The Program therefore will leverage government resources far in excess of the value of IDA resources. Table 3 shows how IDA resources will be disbursed. The IDA resources, in effect, pay for the annual increase in sector grants, each year from 2018/19 onwards. Cumulative increase in conditional transfers to LGs for health and education services in the course of the Program implementation, compared to a scenario where their amounts would remain at their 2016/17 levels, is projected at US\$475 million (US\$315 million for education and US\$160 million for health). This increase exceeds the amount of IDA credit by US\$275 million or by a factor of 2.37. Upon effectiveness in 2017/18, disbursement of the IDA funds will be made against prior results and to cover, among others, the costs of the annual performance assessments.

**Table 4. Program Financing (US\$, millions)**

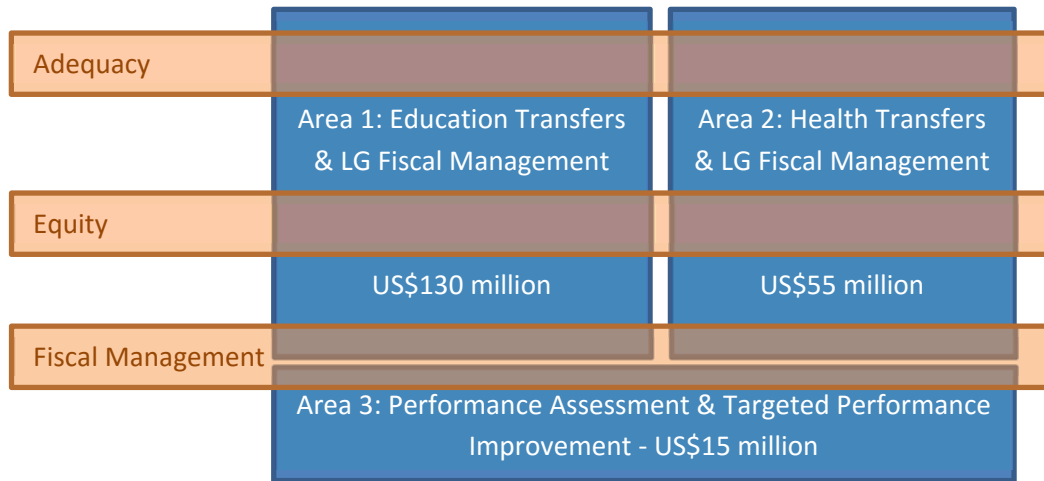
Source	Amount	% of Total
Government	587.59	74.7
IBRD/IDA	200.00	25.3
Other Development Partners	N.A.	N.A.
<b>Total Program Financing</b>	<b>787.59</b>	<b>100</b>

47. **The Program Expenditure Framework will in turn be included in the Government's MTEF which specifies GoU planned expenditures over a five-year period.** The MTEF for the first year are by design equal to budget allocations for that year. Since the introduction of the Poverty Action Fund in 1998, LG grants have been given priority in the cash flow by MoFPED and the risk of significant budget shortfalls by the Government is modest.

#### **D. Disbursement Linked Indicators (DLIs) and Verification Protocols**

48. **The DLIs for the UgIFT Program are grouped into three results areas: One for the health sector, one for the education sector and one for the cross-cutting area, which includes Performance Assessment and Targeted Performance Improvement for LGs.** The DLIs measure the adequacy and equity of fiscal transfers at the central government level, and the fiscal management of resources at the LG level for health and education services. The DLI matrix shows the specific components, baseline and target values for each DLI.

**Figure 7. Three Results Areas Used to Group DLIs**



49. **These DLIs under each area represent a mix of outputs and intermediary outcomes.** The DLIs for this Program are:

- (a) **Results Area 1:** Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for *Education* Services (US\$130 million is linked to the achievement of Disbursement Linked Results (DLRs) in Education)
- DLI 1.1: Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for education services (US\$20 million).
  - DLI 1.2: Enhanced, equitable formula for operational grants in education phased in as planned (US\$70 million).
  - DLI 1.3: Enhanced, equitable formula for development grants in education implemented as planned (US\$30 million).
  - DLI 1.4: The quality of fiscal management of education resources by LGs is maintained (US\$10 million).
- (b) **Results Area 2:** Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for *Health* Services (US\$55 million is linked to the achievement of DLRs in Health)
- DLI 2.1: Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for health services (US\$10 million).
  - DLI 2.2: Enhanced, equitable formula for conditional non-wage recurrent grants in health phased in as planned (US\$20 million).

- DLI 2.3: Enhanced, equitable formula for development grants in health implemented as planned (US\$15 million).
- DLI 2.4: The quality of fiscal management of health resources by LGs is maintained (US\$10 million).

(c) **Results Area 3: Improvement in Fiscal Management of Education and Health Services** (US\$15 million is linked to the achievement of Cross Cutting DLRs).

- DLI 3: Assessment and Targeted Performance Improvement of the Fiscal Management by Local Governments (US\$15 million).

50. The DLIs are described in detail in Annex 3.

51. **Combined these DLIs reflect a coherent, interlinked set of results which will deliver the Program Development Objective.** Quantitative DLRs of the DLIs related to the adequacy of funding for LG education and health services are chosen so that they are consistent with implementation of the formulae for the grants financing these services and with the Program's expenditure framework agreed with the Government. Complementary and coordinated actions are required from MoFPED, Office of the Prime Minister (OPM), MoLG, and LGs themselves to achieve the development objective. It is important to note that while improving the adequacy and equity of grants and improved management of those grants at the local level are critical and necessary steps, complementary investments in health and education will be needed to maximize their impact on health and education outcomes.

52. **The Permanent Secretary / Secretary to the Treasury (PS/ST) of MoFPED, as chair of the FD Steering Committee, will report to the World Bank on achievement of DLIs.** The FD Technical Committee, chaired by MoFPED will be responsible for overseeing the reporting on DLIs and the verification of the associated results. Reporting on DLIs relating to Education Financing (1.1, 1.2 and 1.3) and Health Financing (2.1, 2.2 and 2.3) will be carried out by the MoFPED, coordinated by the Fiscal Decentralization Unit. The OPM will be responsible for reporting on DLIs relating to the annual performance assessment (DLI3a and DLIs 1.4 and 2.4). The MoLG will report on DLI 3b and 3c.

53. **The LGFC, as the independent body responsible for advising Government on local government finance, will be responsible for verifying all DLIs except those relating to the results of the Performance Assessment.** The World Bank team has assessed the LGFC to be a credible verification agent and that there is no perceived conflict of interest in the LGFC performing this function. The annual assessment process is contracted out and involves independent quality assurance, which will help to verify the credibility of DLI3.

54. **The target date for approval by the World Bank for reports on relating to financing would be the end of August each year and those relating to performance assessment and improvement at the end of March each year.** The World Bank will employ a consultant to support the review of verification reports. The Government will have a possibility to make up for



financing related DLRs not achieved by expected dates because of unforeseen circumstances in the following year.

### **E. Capacity Building and Institutional Strengthening**

55. **There are two areas which UgIFT will directly support institutional strengthening and capacity.** Firstly, at the national level: the Program will help develop the capability of central government to manage and oversee the transfer system that will deliver adequate, equitable financing of local governments. Secondly, at the local level: the Program will focus on strengthening local government performance and capacity, especially in those LGs where institutional and service delivery performance is at its weakest, and developing the associated capacity of central government to coordinate and administer the associated process.

#### **Central Government Leadership, Management and Coordination**

56. **The central government has, to date, demonstrated leadership and commitment toward implementing the reforms.** MoFPED has effectively coordinated this complex reform across several sectors, and demonstrated adequate capacity and commitment. Significant reform ownership has been built across line ministries, including health and education. In addition, momentum behind the performance assessment system is growing, under the coordination of OPM. MoLG is working to develop the system for providing targeted Performance Improvement Programs to weak LGs. However, the capacity of MoFPED, MoH, MoES, MoLG and OPM will need to be strengthened to manage the reformed systems and processes effectively.

57. **UgIFT will provide additional capacity to the central government in the management of the Program to secure successful implementation.** This will include at least two additional experienced staff assigned to or contracted into the Fiscal Decentralization Unit of the Budget Policy and Evaluation Department within MoFPED to fill gaps and strengthen a) the management of transfers; b) the coordination of the reform process; and c) UgIFT specific management and reporting. This support will reinforce rather than undermine existing capacity.

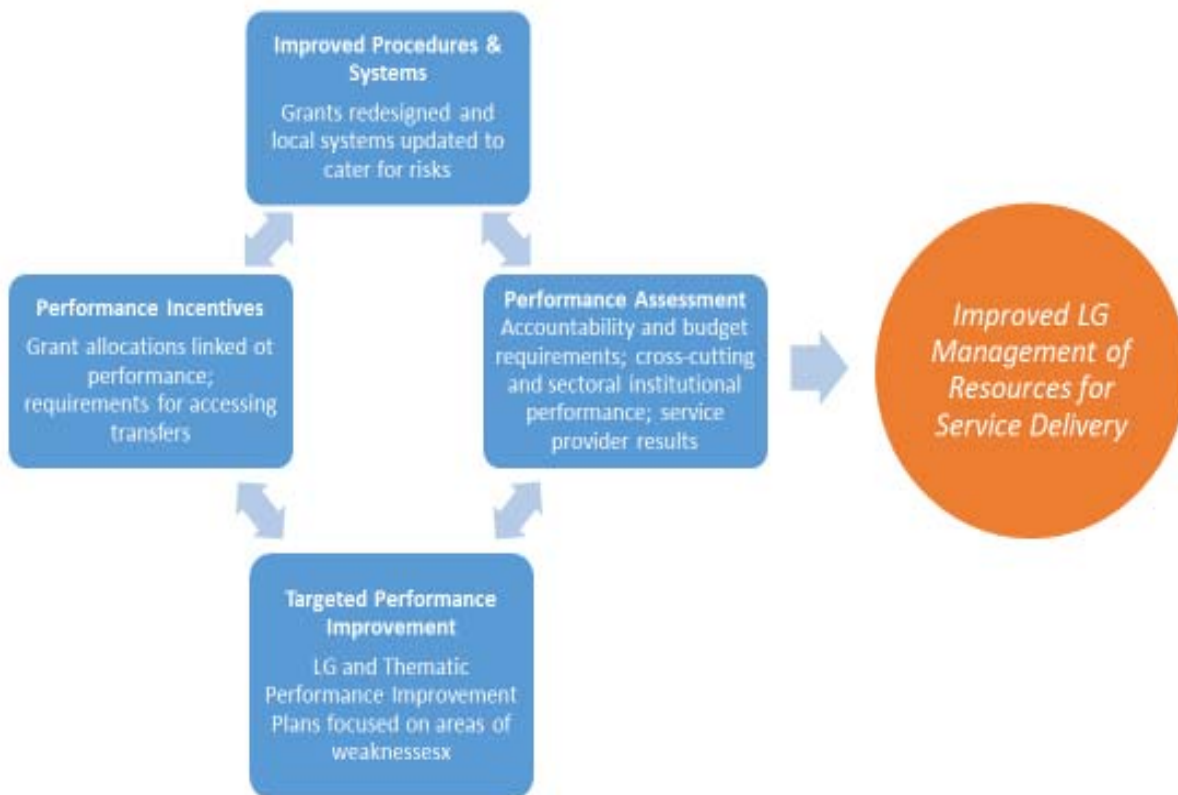
#### **Strengthening Local Government Incentives and Capacities to Better Manage Resources**

58. **The strategy for strengthening LG incentives and capacities to better manage resources has four main, interrelated elements.** Figure 8 shows the overall framework.

59. **The first step is to update and effectively disseminate manuals, procedures and staffing requirements relevant to the management of financing for health and education services.** For the 2016/17 financial year, LG grant manuals were harmonized in the new framework. This included establishing budget requirements to guide LGs in preparing budgets consistent with national policies. The ministries of health and education will further refine these manuals and update guidelines a) at the facility level and b) relating to investments in equipment and infrastructure as needed to mitigate technical, fiduciary, social and environmental risks related to the Program. Staffing is identified as a key constraint in the effective management of LG processes and safeguards, and core minimum staffing requirements at the LG level will also be identified. Training materials will be developed alongside the manuals.

60. **The communication of procedures and guidelines to LGs and within LGs, which has been haphazard in the past, will be made more systematic.** Updated guidelines and procedures will be disseminated to LGs by line ministries through budget consultations and sector specific for a. LGs will disseminate guidelines to facilities within LGs, using increased funding available via development grants for capacity building. All relevant guidance materials will be placed on a single online repository, and this repository will be publicized to the LGs.

**Figure 8. Approach to Improving the LG Incentives and Capacities to Better Manage Resources**

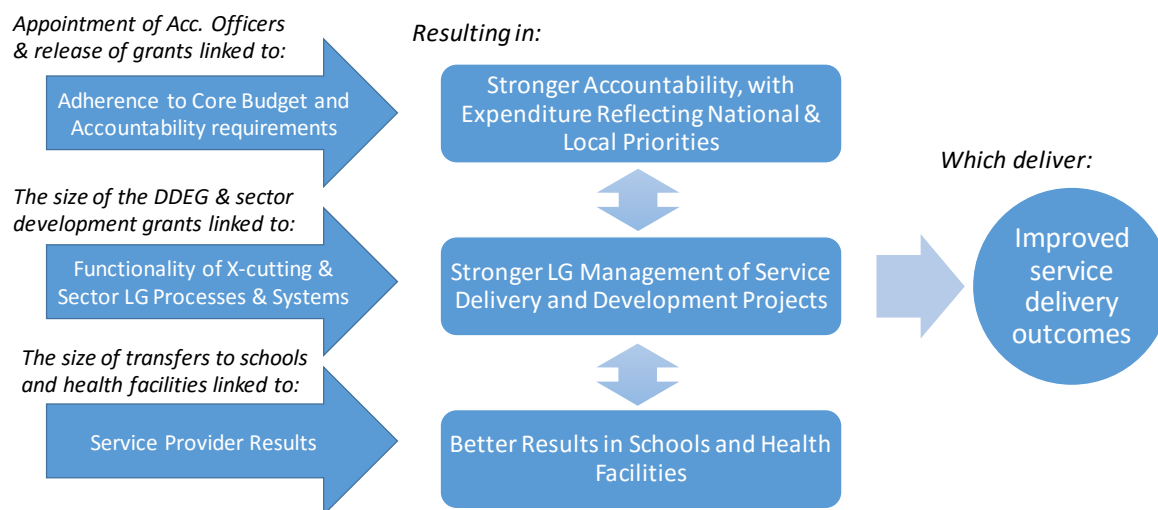


61. **The second step will be the introduction of an annual performance assessment system with three levels.** The first level will focus on adherence to core accountability and budget requirements; the second on institutional performance; and the third on management of service delivery in health and education. Performance Measures for LGs also include adherence to social and environment safeguards, such as the gender guidelines (education) and gender sensitive sanitation in health facilities. In 2018, the assessment manual will be adjusted so that it monitors compliance with the adjusted manuals and procedures. Annex 1 provides more details of the criteria for the LG performance assessment.

62. **The third step will be the use of the assessment system to incentivize results.** The assessment of adherence to core budget and accountability will impact the appointment of Accounting Officers and the signing and management of Performance Contracts. 50 percent of the

discretionary, health and education development grants will be linked to the relative results of the LG performance assessment of cross cutting and sectoral institutional processes and systems. Finally, from 2020/21, individual service delivery units (schools, health facilities) will be incentivized to perform better through linking the size of operational transfers to these units to their actual performance scores.

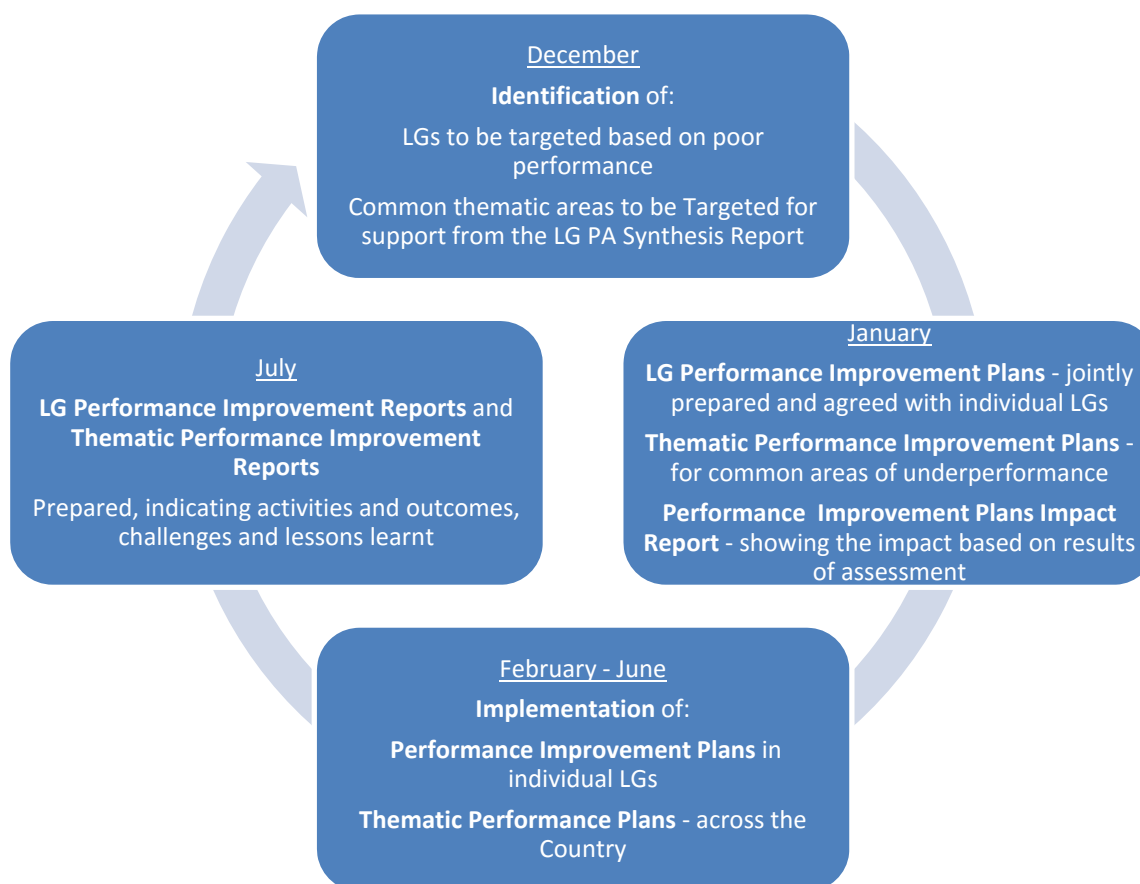
**Figure 9. Performance Assessment and Incentives**



63. **The fourth and final step will be the development of a system of a more coordinated and targeted approach to support poorly performing LGs.** Lower performing LGs tend to have weaker capacities. There is a risk that they will continue to lag behind after receiving additional funding because of high LG staff turnover, challenges in attracting staff, weak administrative leadership, and challenges related to establishment of many new districts and municipalities, among other reasons. Uganda has a clear policy framework for capacity building for LGs, and the increases in grants will provide additional funding for routine capacity building. However, this is unlikely to address persistent poor performance. Therefore, a more tailored approach to improve persistent poor performance is required.

64. **The results of the performance assessment will be used to focus central and LG efforts on improving performance.** A system of targeted Local Government Performance Improvement (LGPI) will be introduced which focuses on a) the worst performing LGs and b) common thematic areas of poor performance across LGs. The worst performing LGs will be placed on a LG performance improvement plan (L-PIP) which will involve the LG and the MoLG, MoH and MoES jointly agreeing on a set of short term measures to improve performance and reporting on the implementation of that plan. In addition, for areas where there is systemic underperformance across LGs, the responsible Ministries, Departments, and Agencies (MDA) will prepare and deliver a Thematic Performance Improvement Program (T-PIP). This process will be coordinated by MoLG. Beyond support to the central government, the UgiFT funds sector development grants which will provide funding to support LGs capacity development, allowing them to address gaps in institutional performance. Figure 10 presents the overall framework for performance improvement and Annex 1 provides additional details.

**Figure 10. Addressing Weak Performance through Performance Improvement Programs**



65. **Following the identification of the poor performing LGs and the relevant thematic areas for support, a rapid cycle of performance improvement planning and implementation will take place:**

- A team representing the LGPI Task Force will visit each LG to discuss and understand the underlying causes of underperformance in the LG and jointly prepare an L-PIP with the LG, in a participatory manner. This will include a) actions to be taken by the LG itself and b) support to be provided by central government before the end of the FY. This may include conventional training or technical support, but will also include specific actions to alleviate the constraints faced by a LG. By the end of July, the LG and LGPI-TF will prepare a report on implementation of the agreed actions.
- For T-PIPs, the responsible national ministry or agency will explore the reasons for under performance and prepare a T-PIP which will set out actions to improve the performance in the thematic area across local governments. This may include changes to guidelines, dissemination, training, or administrative actions. The responsible agency will then report on the implementation of the plan.

66. **The LGPI-TF will prepare a report on the impact of PIP implementation results each January.** The PIPs are intended to impact on the results of the annual performance assessment,

which will take place in August of each year, following the implementation of PIPs. Where appropriate the MoLG may take remedial measures (for example, administrative action against accounting officers) where there is a failure to improve assessment scores.

**67. UgIFT will support central government institutions (MoLG, MoH, MoES) in playing their role in a) managing the performance assessment system and b) providing targeted performance support to LGs.** This support will include a focus on fiduciary and safeguards issues. At least one experienced professional will be assigned or contracted to support OPM in managing the assessment process. At least two experienced professionals will be assigned or contracted by MoLG to coordinate the system of targeted performance improvement programs. These people will have expertise on fiduciary, environmental and safeguards issues. The Ministries of Education and Health will also assign and/or contract full time staff with specific expertise capacity development, fiduciary and safeguards issues related to guidelines, performance assessment and improvement. In addition, short term technical support, which will be coordinated by MoFPED, will be provided to MoLG, OPM, MoFPED and the Ministries of Health and Education for a) updating and disseminating manuals and guidelines; b) managing the assessment process; and c) supporting targeted performance improvement.

#### **Parallel, Flexible Technical Assistance to Facilitate Reform Implementation**

**68. Alongside the UgIFT, parallel, independent and flexible Technical Assistance will be provided by the United Kingdom's Department for International Development (DFID) to facilitate the implementation of reforms.** Since 2015, the World Bank and DFID have been working together to provide such support to the reform process and build capacity to manage the fiscal transfers system. Through the Overseas Development Institute's Budget Strengthening Initiative (BSI), DFID is currently supporting efforts that will improve the capability of the Ugandan authorities<sup>5</sup>. This support has, beyond providing conventional technical assistance, helped facilitate the reform process and broker agreement between line ministries and MoFPED on formulae and grant design, and between OPM and MoLG on the framework for performance assessment and targeted performance improvement. This independent brokering and reform facilitation role will remain important to the Program. This support is planned to continue alongside UgIFT for the duration of the Program, initially funded directly by DFID. DFID will continue this support, either using direct support, or via financing a Trust Fund or an Externally Funded Output managed by the World Bank. The modality is currently being discussed.

**69. In particular, the parallel technical assistance effort will support the performance assessment system and the provision targeted support.** This will help ensure the robustness of performance incentives quality of the performance improvement process, and help build coherence and coordination across institutions. In addition, the performance improvement planning processes will be used as an opportunity to coordinate and focus other development partner sectoral and cross cutting capacity building support, including World Bank sectoral programs.

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<sup>5</sup> The BSI work plan sets out the main reform activities which are led by MoFPED, involve all aforementioned central agencies, and the work is focused on: Government Transfers and the Coordination of Reform: Establishing Performance Incentives Linked to the Transfer Mechanism; Addressing Poor Performance in Local Governments; Enhancing timeliness of release of funds; and Strengthening MoFPED systems to eliminate delays in releases.

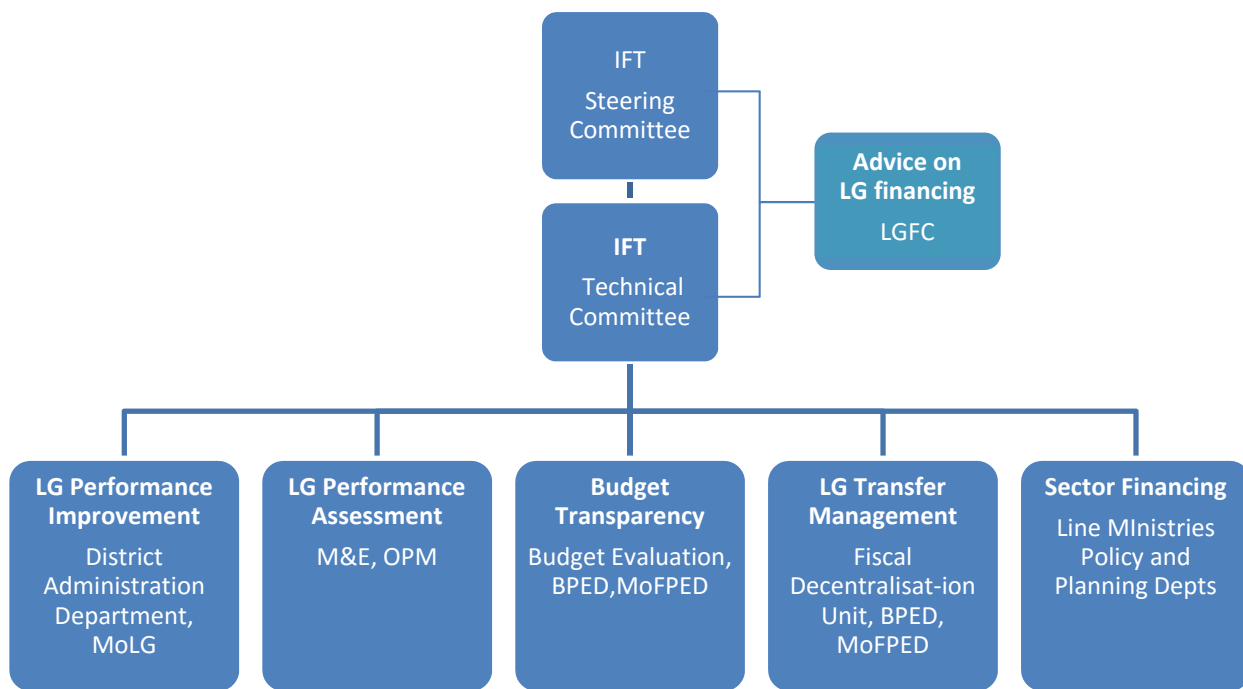
70. **An impact evaluation of the Program will be carried out as part of the parallel support.** The objectives of the impact evaluation are to monitor the Program’s effects on VfM and provision of health and education services by LGs. Midway through implementation, the evaluation will help to identify any course corrections or changes in modalities of the technical assistance provision which might be needed to enhance the Program’s development effectiveness.

### III. PROGRAM IMPLEMENTATION

#### A. Institutional and Implementation Arrangements

71. **The implementation of UgIFT will use existing GoU structures and no parallel implementation and oversight structures will be created.** Figure 11 sets out the institutional responsibilities under IFTRP. The main responsibilities for each ministry as they apply to the Program are described here.

Figure 11. IFTRP Management Structure



72. **The MoFPED is responsible for coordinating the budget process with respect to LGs and for managing intergovernmental fiscal transfers, including those supported by UgIFT.** The Fiscal Decentralization Unit (FDU) of the Budget Policy and Evaluation Department (BPED) coordinates the LG budget process, the release of grants to LGs, LG budget reporting, and the compilation of grant allocations for LGs. It also coordinates reform implementation. In the context of UgIFT, the FDU will coordinate the reporting and M&E activities relating to the Program. Within the MoFPED, a Task Force has been formed to coordinate the management of fiscal transfers, which is composed of sectoral desk officers within the budget directorate and officers from the Accountant General responsible for making releases. BPED is also responsible for promoting budget transparency, including that for LG transfers.

**73. The OPM and MoLG have distinct and important roles in local government performance:**

- The Department of M&E in the **OPM** will coordinate the LG performance assessment, and manage the assessment process. In doing so, the OPM chairs a task force established to oversee the assessment process. The task force involves representatives from line ministries, MoLG, MoFPED and LGFC.
- The **MoLG** will be responsible for coordinating the process of targeted Local Government Performance Improvement, with the health and education ministries and other relevant parties, and for ensuring clear communication to stakeholders, including LGs, of their roles in the context of the program. The MoLG will chair a LGPI-TF made up of relevant stakeholders.

**74. The Ministries of Health and Education** are responsible for sector policies and strategies which govern local service delivery, for development of the grant formulae and guidelines, and medium term grant allocations within sector ceilings. They will also be responsible for overseeing the sectoral elements of the assessment process, and providing targeted performance improvement support to LGs in their sectors.

**75. Two committees, chaired by MoFPED, to oversee the management of Fiscal Transfers will be established under the IFTRP.** They will be made up of the representatives of the Ministries of Health, Education, OPM, MoLG, LGFC, local authorities associations and other relevant parties:

- The FD Technical Committee, chaired by the Director of Budget, will be responsible for coordinating, at a technical level, the grant and assessment framework, and the interface between performance assessment grant allocations and targeted technical support. It will also verify, at a technical level the achievement of DLIs.
- The FD Steering Committee will be established under the IFTRP and chaired by the Permanent Secretary/Secretary to the Treasury. It will be responsible for monitoring and oversight of reforms, ensuring UgIFT DLIs are met and address any high-level implementation issues as they arise.

**76. The LGFC** will advise these two Committees on issues relating to local government financing, and also verify all DLIs except those relating to the LG performance assessment.

**77. Finally, it is important to emphasize the role of LGs.** While all Program activities will be implemented by the central government, the LGs will be responsible for: preparation of LG budgets and work plans which adhere to requirements set out in grant guidelines; generating accounting warrants to access releases; delivery of services and infrastructure; preparing quarterly budget performance reports; and capacity building. Poorly performing LGs will be required to also agree to and implement the performance improvement plans.

## **B. Results Monitoring and Evaluation**

78. **The full Program Results Framework is set out in Annex 2.** The Program results framework is aimed at assessing the achievement of the PDO. The Program Results Framework will monitor the level of LG financing, expenditure and inputs, institutional performance, and service delivery performance, using the following sources of information:

- (a) **Financing:** Information on LG transfer formulae, allocations and releases via Program Budgeting System (PBS), Online Transfers Information Management System (OTIMS) or equivalent.
- (b) **Expenditure, Inputs and Outputs:** Routine budget reporting on Expenditures and Service Delivery Inputs and Outputs by Local Governments using the Output Budgeting Tool which will be replaced by the PBS over the course of the Program;
- (c) **Institutional Performance:** Result of the Annual LG Performance Assessments which will measure local government, and the performance of health and education facilities;
- (d) **Service Delivery Performance:** Key service delivery performance indicators, including those used in the allocation formulae, using the PBS or OTIMS.

79. **This information will form the basis for providing Program specific information.** This includes information relating:

- PDO Indicators and Interim Results, which are set out in the Program Results Framework in Annex 2;
- The achievement of Disbursement-Linked Indicators (DLIs), set out in Annex 3, which provide a measure of UgIFT performance, and, by definition, determines disbursements in the Program.

80. **MoFPED will be responsible for the coordination of the monitoring of UgIFT.** With the planned institutional support, MoFPED will be fully capable of monitoring UgIFT as part of its regular operations. It will also be able to track the easily measurable DLIs. Line ministries in education and health will also monitor LG use of funds along with the LGFC. OPM will strengthen its capacity to monitor overall LG performance, including the performance assessment process. MoLG will carry out its routine inspection of LGs.

## **C. Disbursement Arrangements**

81. **Disbursements of IDA funding for DLIs from result areas 1 and 2 can be made before the end of September (the first quarter of the new FY), while those for DLI 3 can be made in May of each year (in the fourth quarter of the existing FY).** Disbursements will be made from IDA once a) the World Bank has reviewed verification reports on the achievement of DLRs and b) the GoU has requested for a disbursement.



82. **If requested by the GoU, advances may be provided prior to the achievement of results provided there is no interim evidence that DLIs will not be achieved.** In the first financial year, 2017/18, this would enable funds to be disbursed by IDA on effectiveness. In subsequent years, this would allow a first disbursement to take place earlier in the new financial year and/or during the previous FY.

#### IV. ASSESSMENT SUMMARY

##### A. Technical

##### Strategic Relevance

83. **The Program is highly relevant as it will address the binding constraint of low and inequitable levels of funding for health and education at the local level.** Funding levels for health and education in most LGs are too low to achieve improvements in outcomes. This binding constraint has been identified by the Systematic Country Diagnostic, prioritized in the Country Partnership Framework (CPF) – 2016-2021, and highlighted in the 2009 World Development Report (WDR) on Reshaping Economic Geography. Specifically, the Program addresses three constraints that have a major adverse impact on service delivery in a large number of LGs: (i) the large-scale horizontal inequities in the per capita amounts of transfers received by the districts; (ii) the inadequate level of per capita health and education expenditures in poorer districts; and (iii) weak fiscal management of service delivery expenditures at the local level. Underlying these three constraints was a lack of transparency in the design of fiscal transfers, including allocation formulae, reporting, and accountability mechanisms as well as inefficiency in their implementation

##### Technical Soundness

84. **The Program is technically sound.** It is built on proven development concepts as laid out in the WDR 2009; and on Uganda-specific knowledge as presented in World Bank analytical work and supported by World Bank and Government Strategy Documents.<sup>6</sup> The analytic work on Uganda underscores the urgency of remedying the extremely low funding levels of social services for poor districts. With per capita funding for health and education as low as US\$1–3 annually in some poor districts, it is difficult, if not impossible, to achieve positive outcomes. This means that increasing the funding of health and education services is the utmost priority before any improvement can be expected in outcomes—a step that is supported by UgIFT.

85. **The allocation formulae will address the large horizontal inequities in per capita funding for health and education services, which is the single most serious problem with inter-governmental transfers to the LGs.** Stepping up local development spending during the first years of the reform implementation will be critical for reducing these disparities. Global

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<sup>6</sup> Public Expenditure Review (PER) 2013—“Service Delivery with More Districts in Uganda: Fiscal Challenges and Opportunities for Reforms” developed a set of institutional and fiscal policy recommendations for the reforms of fiscal decentralization framework; Uganda Programmatic Public Expenditure Review-June 2016; Consolidation of Intergovernmental Fiscal Transfers in Uganda - Advisory Services Document, May 2015; Reform of Intergovernmental Fiscal Transfers in Uganda - Advisory Services Document, June 2016; Country Partnership Framework (CPF) 2016-2021; Fiscal Decentralization in Uganda, Strategy Paper, March 2002.

experience shows that this may also help to reduce fiduciary risks if UgIFT finances a substantial portion of these grants.

86. **The Program also addresses fiscal management of resources at the LG level by combining performance assessment, incentives and targeted support to poorly performing LGs.** Conventional supply driven technical support and routine capacity building would be unlikely to deliver institutional improvements in isolation. Meanwhile performance incentives alone, without targeted support, are unlikely to leverage improved performance in many LGs where there is persistent under-performance. Therefore, the proposed combined approach is a sound one.

87. **At the national level, stakeholders will have strong incentives to ensure that the improved allocation of fiscal transfers supported by UgIFT succeeds.** The adequacy of resources has been a key complaint of line ministries, and the step change delivered by the Program in health and education will be an important fillip. Similarly, the processes of annual assessment and targeted support represent significant opportunities for the OPM and MoLG to strengthen LG performance.

### **Institutional Arrangements**

88. **The institutional arrangements for the proposed Program are assessed as being appropriate and adequate.** Responsibilities for the management of transfers and interventions to improve efficiency are appropriately distributed at the center. The role of LGs in managing and implementing services is clear. Arrangements for the overall Program oversight, through the FD Technical and Steering Committees, will ensure that both grant management, performance assessment, and targeted support are all coordinated, and the progress towards Program results are monitored.

### **Expenditure Framework**

89. **The expenditure framework is also assessed as being appropriate.** The PforR financing will be embedded in the budget and expenditure management processes of both the national and local governments. IDA funds will be deposited in the Consolidated Fund and be managed using government systems at the national and local level.

### **Economic Evaluation**

90. **Health and education expenditures fund public goods and are therefore appropriately publicly funded.** The provision of basic health and education services benefits not only recipients of these services but also others and the nation as a whole. The main rationale for public financing is that public spending per capita is the factor most closely associated with outcomes in the health and education sectors. The non-quantifiable benefits accruing to service delivery infrastructure investments are also evaluated as being considerable. Bringing every district up to the outcome-to-spending ratio of the districts that perform highly in both health and education sectors is estimated to save about 0.8 percent of GDP. An econometric analysis of district level data shows that the District League Score increases per dollar of additional transfer for Health and Education.

91. **The World Bank’s analytical work demonstrated that the three dimensions of the Program focusing on adequacy and equity of the transfers system and fiscal management of resources will reinforce each other, leading to larger economic benefits of the Program.** Enhancing overall adequacy of the grants will help to improve equity without reducing allocations to better funded LGs. The analysis showed that additional spending had greater impact on outcomes - and hence was more efficient - where existing levels of spending are low, meaning that improving equity of spending will also help to improve its efficiency, complementing efficiency gains resulting from better fiscal management. The Program can also indirectly generate fiscal space through the aforementioned savings. The predictable and steady increase in path-dependent budget allocations to LGs in order to reduce horizontal inequities, combined with a sustained strengthening of incentives of the LGs to enhance VfM, are critical for maximizing the gains.

### **Technical Risk Assessment**

92. Four groups of risks were identified in the assessment; mitigation will be through a combination of Program design, the DLIs, and Program Action Plan (PAP; see Annex 7).

93. **The first group of risks to results relates to the adequacy and equity of financing.** Inflation may accelerate and undermine the real value of the increases in transfers and hence improvements in adequacy. Other, external, economic shocks may make it difficult to achieve fiscal targets. There may be pressure to adjust the formulae in a way which means that equity targets are not met. The combination of formulae, equity targets and medium-term plan to uplift transfers may become misaligned. For example, new data for a formula variable such as poverty might increase the cost of reaching equity targets. There may be problems in the integrity and consistency in the data used in grant allocation. Such data includes formula variables themselves, and the lists of schools and health facilities to which funds are transferred directly. Meanwhile cash shortfalls and a new release warrant system may mean that transfers not released in full whilst there may be over-releases to some LGs.

94. **The second risk relates to the achievement of improvements in fiscal management, through performance assessments, incentives and targeted performance improvement support.** The credibility of the annual assessment process may be undermined as a result of a lack of integrity or quality of the assessment. This undermines the quality of performance information in the associated incentives and targeting of performance improvement activities. Furthermore, delays in the performance assessment would result in delays in the achievement of the transfer related DLRs – due to the interdependence of DLIs. This represents a significant risk to disbursement under the Program, and therefore the procurement and management of the assessment process will need to be closely monitored.

95. **Thirdly, the achievement of Program results may be put at risk by institutional capacity constraints at the center.** This may include (i) the thin technical capacity at the MoFPED to manage transfers and supervise the Program, and at the OPM to manage the assessment process; and (ii) the limited capacity of MoLG, MoES, and MOH to provide targeted technical support.

96. **Fourthly, there is risk of persistent under-performance in some of the worse funded and weaker LGs.** This would undermine equity objectives, as the benefits of increased funding

to worse funded local governments would be more limited – the effectiveness of the performance improvement programs and associated technical support is therefore crucial and will also be closely monitored.

## **B. Fiduciary**

### **Fiduciary Arrangements**

97. **An Integrated Fiduciary Assessment was conducted covering three thematic areas; Procurement, Financial Management and Governance aspects of UgIFT.** The objective of the fiduciary systems assessment was twofold: (i) to provide a baseline that can be used to monitor fiduciary systems performance during Program implementation; and (ii) identify actions needed to enhance the fiduciary systems during Program preparation and implementation.

98. **UgIFT fiduciary arrangements will be implemented at the Central Government and Local Government levels following Government procedures and processes.** The Program will follow the existing fiduciary arrangements in the country as follows:

- (a) **Managing Transfers at the Central Government level** - MoFPED and the Ministries of Education and Health responsible for the Program grants as well as the budgeting, planning and funds release processes.
- (b) **Managing Transfers at the Local Government level** - The local government accounting officer is responsible for overseeing the planning and budgeting for transfers, preparing and submitting warrants to MoFPED, based on which funds are released to Districts as well as to health and education facilities under the existing government program; and quarterly budget reporting.
- (c) **The LG annual performance assessment framework will be used to measure fiduciary capacity and compliance with systems and processes.** OPM will coordinate the assessment process.
- (d) **Targeted Performance Improvement and Inspection.** The MoLG will coordinate a process of targeted support to poor performing local governments, as well as to inspecting, monitoring and advocating for LGs.
- (e) **Financial Statements and Audit** - A Program Financial Statement will be prepared annually, to include IDA and GoU revenues, transfers made to local governments and national expenditures as set out in the expenditure framework. An annual audit of this statement will be conducted by the Office of the Auditor General (OAG), within the OAG's existing framework.

### **Fiduciary Risk Assessment**

99. **The Fiduciary Systems Assessment (FSA) has identified the various implementation and Program risks and their potential impact on the ability of UgIFT to attain its development objectives.** The country has an established legal framework with laws, procedures and regulations in place that are among the best in the region. However, the Program

implementation framework is characterized by weak systems at LG and facility/school level as well as by capacity constraints to deliver these systems. The Program will be implemented in an environment of low levels of compliance to laws and regulations with weak enforcement regimes.

**100. The country continues to face significant governance challenges especially those related to fraud and corruption and abuse of office, both at the central and local government levels.** Uganda has consistently performed poorly on international governance indicators for the last five years in the area of control of corruption. High level corruption cases in 2012 sounded a clarion call for further strengthening of the Public Finance Management (PFM) framework in Uganda. Whereas the Government has put in place commendable legislation and institutions to fight corruption and maintain good governance, these have not been implemented to the letter. The present framework for budget formulation, execution, and audit is provided by the PFM Act 2015 and the Local Government Financial and Accounting Regulations (2007) and the National Audit Act 2008. Annual Audit Reports released by the Auditor General identify key risks across MDAs of misuse of public funds including misappropriation of funds; by-passing controls by government officers; manipulation of procurement processes; inadequate accountability; overriding of budgetary controls by MDAs through mischarging expenditure against wrong codes, among others. At the LG level, based on the complaints (abuse of office and funds) received by the Inspectorate of Government (June 2016 Report to Parliament), the most complained against departments/institutions were the District Administrations, Municipal and Town Councils, school administrations both in primary and secondary schools; district service commissions, local councils, and sub-county chiefs.

**101. The fiduciary risks can be grouped into three; the first group relates to the misuse of funds as a results of the poor functioning of existing processes and systems at the local level.** Problems of compliance with procurement and financial management processes and systems are compounded by understaffing in key positions, for example, the Chief Finance Officer (CFO). Audit follow up by accounting officers is often not systematic, and instances of fraud and corruption are commonly reported. The LG annual assessment framework will be used to measure financial management, procurement and governance performance in these areas and provide the basis for incentivizing performance. The performance improvement planning process will target areas of poor performance. This approach is central for mitigating fiduciary risks.

**102. The second area relates to problems in LG systems and processes, which require adjustment at the center to adjust/improve them.** Current LG guidelines and regulations are not aligned with the legal framework for PFM and Procurement. Guidelines at the facility level are inadequate, and leave the possibility of double accountability and duplication of resources, because schools and health units' plans and budgets are incomplete and do not include donor funding. LGs not on the IFMIS face challenges processing warrants for releases. In order to address the most direct fiduciary risks to the Program, sector specific LG manuals and guidelines will be updated and compliance incentivized through the annual performance assessment.

**103. The third group of risks relate to the lack of awareness of LGs of implementing systems and processes which is likely to result in a lack of adherence to those systems.** This include awareness of sector guidelines, for both higher local government and facilities; financial management and procurement guidelines, resulting in weak practices; and the role of elected officials in PFM. Updated sector specific guidelines will be systematically disseminated.

104. **Based on the above analysis, the overall fiduciary risk of the Program is rated as Substantial.** Risk mitigation measures have been built into the Program design in both the DLIs and the PAP.

### **C. Environmental and Social Effects**

105. **An Environmental and Social Systems Assessment (ESSA)<sup>7</sup> has been completed based on a thorough review of national and local systems, supplemented by extensive consultations at the district level.** The assessment found that the existing environmental and social management framework at the national level should, in theory, provide adequate means for reducing risks from Program elements supported by the UgIFT, but the assessment found critical deficiencies at the LG level in carrying these forward. In traditional investment projects, due diligence is augmented through Program Implementation Units overseeing facility-by-facility contracts; a modality that is not envisaged for this PforR operation. Nevertheless, with adequate mitigation measures as outlined below, environmental and social risks at the LG level can be reduced throughout program implementation. Moreover, if Program results are achieved and deliver increased equity and improved allocation of services within districts, this will potentially have significant social benefits for affected communities – including vulnerable and marginalized groups.

106. **The investments supported by the Program - including the rehabilitation and construction of infrastructure in thousands of education and health facilities<sup>8</sup> - typically pose modest risk when screening and supervision is carried out correctly.** Nevertheless, the field experience in Uganda and observed deficiencies in LG capacity suggest a comparatively higher risk for social considerations. These risks stem from the potential influx of construction workers from larger urban centers into rural areas (parishes and sub-counties) specifically targeted by the Program and generally deficient in capacity to carry out construction of specialized facilities such as maternity/general wards, operating theatres, and other facilities associated with health services. Construction of primary schools could similarly require influx of outside workers into local communities often lacking the means to absorb and manage the influx of such workers. Concerns include: (i) the spread of HIV/AIDS; (ii) instances of Gender Based Violence (GBV) and Violence Against Children (VAC); and (iii) labor related issues, including Child Labor. Land acquisition and resettlement are, however, not expected to pose significant risks given the small scale of investments and the likelihood of construction being carried out on existing facilities' footprints, though it is important that these processes are properly screened and tracked. In addition, a number of these civil works will potentially be implemented in areas where communities are not always duly consulted during project preparation, and/or lack access to adequate grievance redress mechanisms.

107. **While the scale of the investments (and consequent risks) that will be supported through the UgIFT is markedly less than troubled transport sector projects, appropriate due diligence is needed.** The World Bank is taking special precautions on current and proposed investments in Uganda in light of violations associated with contractors hired to perform civil works in rural areas. As the field exercises have revealed important deficiencies in terms of

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<sup>7</sup> Draft ESSA has been disclosed at the World Bank's Uganda Country Office website and in the World Bank Infoshop on April 18, 2017.

<sup>8</sup> The education and health development grants will focus on construction and rehabilitation of classrooms, teacher houses, sanitation facilities, dormitories, libraries, maternity wards, general wards, operating theatres, mortuaries, etc.

availability and capacity (technical and material) of relevant District social staff, the Government has agreed to a number of mitigation measures described below.

**108. Environmental risks associated with the construction and operation of education and health facilities as envisaged by this Program, are modest, and can be managed through adherence to established procedures for screening, contracting (with the requisite Environmental and Social Management Plans), and supervision during implementation.** Unfortunately, in almost half of the surveyed Districts, good screening is not carried out, and in the majority of Districts, staff and material shortages hamper both screening and especially supervision. There have been advances in health waste management in the country though again, adherence at the local level may be problematic. As the field exercises have revealed important deficiencies in terms of availability and capacity (technical and material) of relevant District environmental staff, the Government has agreed to mitigation measures.

**109. Mitigation measures will build on the Program’s overall approach for improving efficiency and developing capacity of LGs, and will be elaborated in the POM.** The initial LG performance assessment manual and approach (now being finalized), includes criteria to assess and track LG adherence to basic environmental and social management measures, including whether sufficient staff are in place (numbers and qualifications), the adequacy of budget resources, whether/how extensive screening of projects for environmental and social risk is, and how supervision is carried out. Valuable e-linkages to existing sectoral guidelines and other resources will be provided. This will be the first time that such assessments are carried out across the country, and will provide critical information for improving processes systemically.

**110. The Government has agreed to update procedures, guidelines and manuals to more effectively tailor solutions to mitigate environmental and social risks, and add staff to oversee the process through implementation.** Targeted technical support will be provided by central government authorities in areas of underperformance – both thematically and for specific LGs with performance issues. The effectiveness of performance improvement on environmental and social issues will be tracked annually, and inform the need for additional guidance and implementation support. Improved guidelines and manuals could address risks as follows:

- Guidelines for sector investments in health and education - e.g.: disseminating improved social and environmental screening forms (examples are included in an ESSA Annex), standardized Environmental and Social Management Plan (ESMP) and contract/bid documents, possible exclusionary lists (e.g. as needed to address involuntary resettlement), provisions to mitigate labor influx issues and labor disputes (examples are included in an ESSA Annex), fecal disposal/sanitation measures, roles of School Management Committees (SMCs) and Health Management Committee (HMCs) in overseeing construction, etc.
- Facility-level operational guidelines (school, health facility) – e.g. health waste management; education and outreach for grievance redress; roles of SMCs and HMCs in monitoring, etc.
- Sector budget requirements and institutional performance measures in the annual performance assessment – e.g.: determining necessary numbers of staff and budget resources; filling shortfalls through hiring, training, capacity building, etc.

111. **Further guidelines development and implementation could also be informed through thematic performance improvement plans.** Thereafter, the annual assessment of institutional performance would be adjusted to reflect these improved guidelines. Coordination and implementation support will also be strengthened at the national level; for example, assigning specific staff or hiring consultants with the requisite social and environmental expertise in relevant sector ministries. Such staff would be critical for overseeing and aggregating substantive information on the LG performance assessment and improvement process, and advising on both thematic and local performance and improvement efforts. These steps – including detailed evaluative factors - will elaborated in the POM.

112. **In the context of the Program, grievance redress will be based on the Government's own systems.** In order to ensure that potentially affected persons do not have to travel long distances or incur any costs during grievance processes, the initial point of intake grievances for education investments is envisaged to be existing SMCs which provide oversight of school management and represent local communities' and parents' interests in school facilities. For health investments, HMCs whose mandate includes fostering improved communication with the public and encouraging community participation in health activities within and outside the unit, would serve that purpose. However, because members of these committees are not specifically trained to address infrastructure related environmental and social issues, their guidelines would be strengthened as part of the Program to allow them to manage a wider range of complaints and as necessary, channel them to the appropriate and established local government and national systems for grievance redress, which include respective lower local governments, leadership/councils and relevant District/Sub-county civil servants (LCs, Probation Officers, Labor Officers, District Environmental Officers, and the Ugandan Police) that are better equipped to handle cases of GBV, VAC, and labor related issues. Moreover, these committees could play an important role in sensitizing communities and workers to these risks - for instance, Health Management Units could support contractors in developing HIV/AIDS sensitization/prevention activities for workers and community members while SMCs could involve teachers in sensitizing students and parents to these risks but also in monitoring worker/student interactions. In addition, from 2018/19 onwards, guidelines will also require facilities to put up notices outlining the channels available to beneficiaries for grievance redress. These will be specified in the POM and dissemination and compliance will be incentivized through the assessment process.

113. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing Program grievance redress mechanism or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



## D. Risk Assessment

114. **The overall risks for the Program are substantial before mitigation.** The effective implementation of the proposed mitigation measures might reduce the risk to moderate. The sector strategies, technical design, institutional capacity and fiduciary risks arising from the Program are all rated as substantial. The sector strategies involve significant complexities (see Section IB). The risks related to the technical design are discussed in the paragraphs 93 and 94. For the risks related to institutional capacity, see paragraphs 95 and 96, and for the fiduciary risks see paragraphs 101-103.

**Table 5. Summary SORT**

<b>Systematic Operations Risk-Rating Tool (SORT)</b>	
<b>Risk Category</b>	<b>Rating (H, S, M, L)</b>
1. Political and Governance	M
2. Macroeconomic	M
3. Sector Strategies and Policies	S
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environment and Social	M
8. Stakeholders	M
9. Other	
<b>OVERALL</b>	<b>S</b>

## E. Program Action Plan

115. **The Program Action Plan sets out a set of actions which, together, aim to provide an overall strategy for mitigating the risks associated with the Program.** The actions are set out into two groups.

116. **Firstly, those relating to the largely technical risks of managing transfers and systems at the national level:**

- (a) In order to mitigate the risk of the Government not increasing transfers in the budget, a DLI has been put in place, which requires that the Annual Budget allocation MTEF is consistent with the Medium Term Plan for uplifting transfers in the budget.
- (b) External economic shocks could affect the shillings cost of achieving equity and adequacy objectives. For example, the real value of increases in transfers could potentially be undermined by inflation; the dollar cost of achieving targets increased by an appreciation of the exchange rate or weak GDP growth may undermine revenue collection. The PAP requires the revision of the Medium Term Plan for uplifting transfers and associated MTEF allocations as a result of specified economic shocks.

- (c) Adherence to the revised formulae and phase in plan in the budget allocations and releases has been made a DLI, to help ensure the achievement of equity targets.
- (d) In order to ensure the accuracy and consistency of the data used for implementation of the redesigned grants, a process of managing and validating data has been established, integrated into DLI verification protocols and the more detailed procedure will be set out in the POM.
- (e) The combination of formulae, equity targets and medium plan to uplift transfers may become misaligned. Changes in values of formula variables may substantially increase the cost of achieving equity targets. If this occurs and the cost increases by over UGX 4 billion in a single FY, the PAP will allow for renegotiation of those targets.
- (f) Finally, the PAP will set out a set of measures to ensure Central Government establishes the capacity to manage transfers system, make transfers available on time, to communicate effectively with LGs, and addresses fiduciary and safeguards issues. Details will be set out in the POM.

117. **Secondly, there is a framework for support to address institutional, fiduciary, environmental and social risks at the local level, addressing weaknesses directly and also incentivizing improved performance.** There are several dimensions to this framework for support:

- (a) A robust annual performance assessment takes place according to agreed rules and covers technical, fiduciary, environmental and social risks. Grant allocations are linked to this, with a view to incentivizing performance. This is the core DLI relating to fiscal management of resources.
- (b) Manuals and procedures relating to transfers, procurement, financial management and LG staffing are updated and disseminated systematically to respond to technical, fiduciary, environmental and social risks.
- (c) A Process for Targeted Performance Improvement, coordinated by MoLG, with additional implementation from Ministries of Health and Education, which will be relevant for risks arising from poorly performing local governments and common areas of poor performance.
- (d) Two thematic areas for targeted performance improvement in 2018/19 address fiduciary and social and environmental risks identified during the first round of LG performance assessments and help to strengthen capacity of LGs to implement the related updated guidelines.

## Annex 1: Detailed Program Description

### I. Program Development Objective

1. **The Program Development Objective (PDO) is To improve the adequacy and equity of fiscal transfers and improve fiscal management of resources by Local Governments for health and education services.** Research<sup>9</sup> shows that additional spending tends to have greater impact where existing levels of spending are low, which promotes both equity and efficiency. This Program will take advantage of this opportunity by immediately increasing funding levels to underfunded LGs (especially through development grants. The Program also intends to ensure that real per capita funding levels steadily increase in the currently underfunded LGs.

2. **Over the longer run, the Program will provide a steady stream of enhanced incentives and funding to support the roll-out of more efficient and equitable formulae for allocating fiscal transfers.** These formulae will correct the chronic disparities in allocations between Districts and thereby enhance equity and efficiency of the financing of decentralized social services. The Program approach will also create incentives for LGs to perform better in the management of resources for service delivery because the allocation of resources will be based in part on an assessment of their performance. The Program also intends to make the selected fiscal transfers a “reform model,” which will create a demonstration effect leading to spillovers of good practices in financing decentralized service delivery through other sectoral grants to LGs.

3. **Since 2015, the GoU has made substantial progress in implementation of the Program through reform of intergovernmental fiscal transfers.** Design of the new system of transfers is based on the following objectives:

- Increasing discretion over allocation decisions to enable LGs to deliver services in line with local needs while ensuring that national policies are implemented.
- Restoring adequacy and equity in allocation of funds for service delivery.
- Shifting the focus away from fragmented input-based conditions toward accountability for budgetary allocation decisions, expenditures, and results.
- Using the transfer system to lever institutional and service delivery performance.
- Allowing new national policies to be funded via the transfer system, whilst avoiding future fragmentation of transfers and reduction in discretion.

4. **The reform of fiscal transfers follows a sequenced approach, starting with the consolidation of the transfers in 2015, which was a critical first stage of the reform.** Under the consolidation, the number of transfers to local governments was reduced from 46 to 20. Consolidation was a necessary first step because it helps increase recipients’ flexibility in the use of their fiscal resources, and opens the way to developing rational formulae for the grants. It has helped reduce transactions costs associated with the grants planning and monitoring. It has also made the reform process more transparent and understandable for the LGs, and is helping them to

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<sup>9</sup> World Bank (2013) “Service Delivery with More Districts in Uganda: Fiscal Challenges and Opportunities for Reforms”.

achieve greater economies of scale in use of their resources. The proposed Program will support the next stage of fiscal transfer reform.

## II. Scope of the Program

5. **The Program will support the next stage of the reform (launched in 2016) in three areas:**

6. **Firstly, with the objective of improving equity of allocation across LGs, UgIFT will support the implementation of new, simple and transparent formulae for education and health non-wage conditional grants.** A set of principles for formulae have been established, which included ensuring allocations “match resources to the target population and capture any major differences in need and cost, and ensure a balance between these factors.” Subsequently, a consultative process involving line ministries, MoFPED and LGFC has taken place, and the formulae developed and approved by the Ministries of Health and Education represent such balance. In addition to enhancing equity of allocations to the LGs, they will also include performance-based components which will allocate greater share of resources to better performing LGs within worse-funded, medium-funded, and best-funded groups. The provision of additional funding will allow previously underfunded LGs to scale up operational funding to facilities and make more significant investments in health and education. In many underfunded LGs, resources are lacking to carry out activities beyond maintenance and minor renovations. In addition, there is evidence that making financing of health and education services more equitable, per se, improves efficiency, as other things being equal it helps to achieve larger improvement in outcomes per shilling spent.

7. **Secondly, the Program will help restore the adequacy of funding to LGs, by providing additional resources to support the associated plan for uplifting transfers which will also enable the phase in the new formulae.** This addresses the key concern of both the health and education sectors. Additional resources will be allocated to those LGs below formula levels, prioritizing those receiving least relative to their formula share. To ensure that non-wage recurrent funding for existing facilities is not reduced, those local governments receiving more than their formula share will be kept constant (“held harmless”). For development grants, the formula has already been implemented in full for education and will be implemented in full from 2018/19 for health. With the additional resources under the Program, LGs will be able to increase operational funding and finance small scale construction and rehabilitation of infrastructure in primary and secondary schools and health centers. The Program will enhance the fiscal space for implementing the medium-term plan over time, delivering resources commensurate with the annual required increase in sector conditional grants. The annual increase in allocations to these grants will be similar in magnitude with the annual disbursements of IDA funds.

8. **Thirdly, the Program will also help to improve fiscal management of resources by LGs for health and education services.** The Program will help to achieve this by strengthening incentives and capacity of the LGs to use it which is also central to the approach to managing risks at the local level. Manuals, procedures and staffing requirements relevant to the management of financing for health and education services and associated investments will be updated and effectively disseminated. A multi-level annual performance assessment system for LGs will be introduced. Its results will be used to incentivize better outcomes through performance-based

components of the formulae for the grants. This will be complemented by development of a system of coordinated and targeted approach to address poor performance in local governments. If, according to the assessment of LG performance, the LG has met performance-based criteria, then the allocation to that LG will be higher than if it did not.<sup>10</sup>

9. **To address inadequate funding of social services which is a binding constraint to Uganda’s long-term development, the proposed Program will fund a portion of the GoU’s overall program of Intergovernmental Fiscal Transfers Reform.** With the consolidation of grants reform phase completed, the proposed PforR will support the next stage of the reforms focusing on fiscal transfers. Fiscal transfers fall under three categories of grants: conditional, unconditional, and equalization.<sup>11</sup> Conditional grants, in turn, fund three types of expenditures: wage, recurrent non-wage, and development. Conditional grants finance decentralized services in six sectors: Agriculture, Works and Transport, Education, Health, Water and Environment and Social Development.

### Expenditure Framework

10. **Within the overall GoU program, the Program will cover two types of conditional grants to the LGs - non-wage recurrent grants and development grants - in two social sectors: Health and Education (Table 1.1).** The financing of social services remains centralized because of the LGs’ limited ability to generate their own revenues. Grants in the two sectors are characterized by large-scale inequities in the allocation of funds to LGs. In 2014/15, the ratio of average spending (fiscal transfers) on health and education per beneficiary in the ten best funded to the ten worst funded districts, 7.0 and 7.2 respectively. For some districts, this skewed allocation meant providing education services at a per capita cost of less than UGX 10,000 (US\$3) per year. There can be no progress in health and education outcomes with this level of funding.

**Table 1. 1. Program Support for Fiscal Transfers within the Overall GoU Program (UGX billion)**

<b>Education Sector Grants</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Education Wage Grant</b>	<b>1,155.51</b>	<b>1,155.51</b>	<b>1,221.95</b>	<b>1,292.21</b>	<b>1,366.51</b>
Primary Education	906.46	906.46	958.58	1,013.69	1,071.98
Secondary Education	214.46	214.46	226.79	239.83	253.62
Skills Development	34.59	34.59	36.58	38.68	40.91
<b>Education Sector Non-Wage Recurrent Grant</b>	<b>231.38</b>	<b>290.89</b>	<b>337.50</b>	<b>381.11</b>	<b>422.51</b>
Primary Education	72.53	94.53	110.39	124.25	136.91
Secondary Education	127.05	162.02	190.02	216.81	242.34
Skills Development	31.79	34.33	37.08	40.05	43.25

<sup>10</sup> The system proposed means that LGs with a performance score above the average score will receive additional funding and opposite. In a typical example a LG with a performance score of 10 percent above the average score will get about 5 percent additional funds compared with the basic formula allocation for the LGs with similar characteristics. In a case with performance 20 percent above the average about 10 percent additional allocations compared to the basic formula allocation (assuming that 50 percent of resources are allocated using the performance weighted formula).

<sup>11</sup> See Annex 3 for a description of the grants. Note: MoFPED stands for the Ministry of Finance, Planning and Economic Development.

<b>Education Sector Development Grant</b>	<b>32.51</b>	<b>58.86</b>	<b>94.14</b>	<b>100.14</b>	<b>104.14</b>
<b>TOTAL Education</b>	<b>1,419.39</b>	<b>1,505.25</b>	<b>1,653.58</b>	<b>1,773.46</b>	<b>1,893.16</b>
<i>Total Change</i>	<i>0.00</i>	<i>85.86</i>	<i>148.33</i>	<i>119.88</i>	<i>119.70</i>
<i>% Change</i>	<i>0.00</i>	<i>0.06</i>	<i>0.10</i>	<i>0.07</i>	<i>0.07</i>
<b>Health Sector Grants</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Health Wage Grant</b>	<b>291.41</b>	<b>291.41</b>	<b>308.17</b>	<b>325.89</b>	<b>344.63</b>
<b>Health Non-Wage Recurrent Grant</b>	<b>47.07</b>	<b>68.43</b>	<b>86.61</b>	<b>107.78</b>	<b>129.88</b>
Primary Health and Sanitation Services	27.43	42.79	54.97	69.14	83.84
District Hospital Services	19.63	25.63	31.63	38.63	46.03
<b>Health Sector Development Grant</b>	<b>0.00</b>	<b>50.26</b>	<b>61.26</b>	<b>68.26</b>	<b>73.26</b>
<b>TOTAL Health</b>	<b>338.48</b>	<b>410.10</b>	<b>456.04</b>	<b>501.93</b>	<b>547.77</b>
<i>Total Change</i>	<i>0.00</i>	<i>71.62</i>	<i>45.94</i>	<i>45.89</i>	<i>45.84</i>
<i>% Change</i>	<i>0.00</i>	<i>0.21</i>	<i>0.11</i>	<i>0.10</i>	<i>0.09</i>
<b>Grant Management, Assessment &amp; Targeted Support</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>TOTAL Grant Management, Assessment &amp; Targeted Support</b>	<b>8.00</b>	<b>10.50</b>	<b>10.50</b>	<b>10.50</b>	<b>10.50</b>

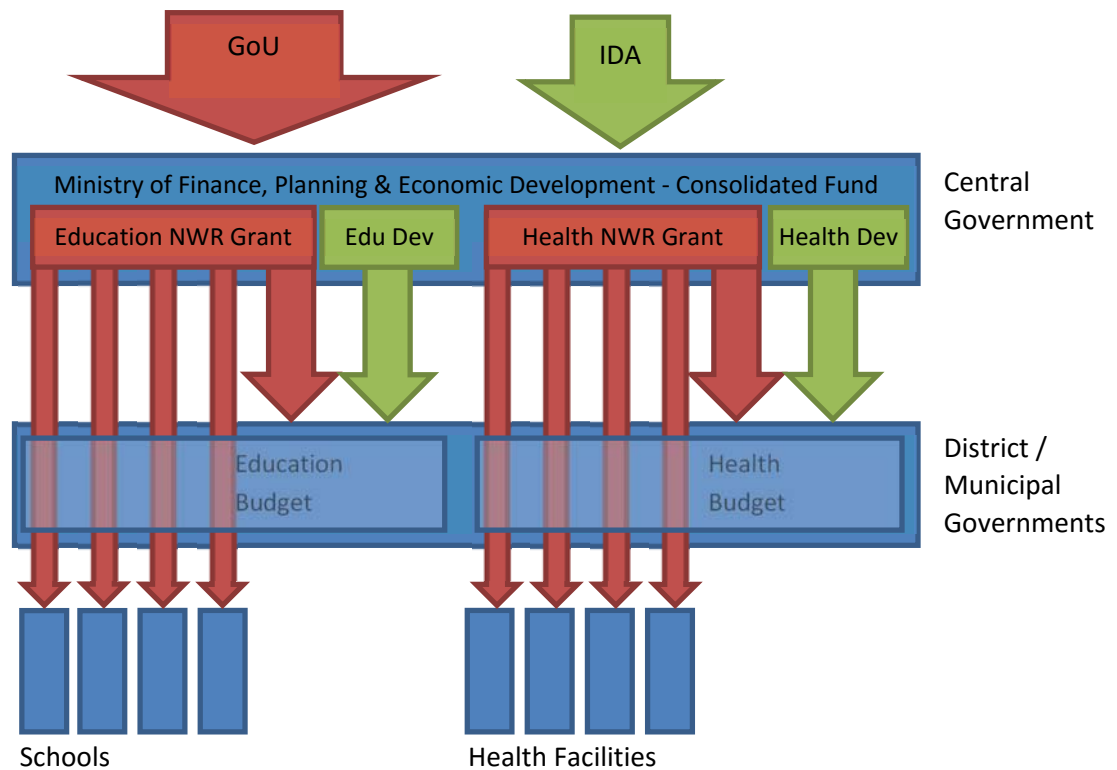
### Description of Grants Funded by the Program

11. **The Program Expenditure Framework will cover non-wage recurrent and development conditional grants for health and education.**

12. LGs are responsible for the following services:

- In education, the main responsibilities are for the delivery of primary, secondary, technical, vocational, teacher and special needs education.
- In health, local governments are responsible for primary healthcare through district general hospitals and a network of health facilities with a three tier system (Health Center IV, III and II).

**Figure 1.1 - Flow of Funds**



13. The purpose of the **non-wage recurrent grants** in health and education to fund the operational/running costs of schools and health facilities and the district/municipality management and oversight of service delivery.

14. A share of the grants is allocated to and transferred directly to *facilities*:

- For education, these involve capitation grants for primary, secondary and BT/VET institutions, with allocations based on the enrolment in each institution
- For health, these involve operational transfers for the different categories of health facilities. Currently the allocations are largely fixed.

15. The remaining share is allocated to and transferred to the *district/municipality*, and involves:

- For education, the oversight, management, and inspection.
- For health, preventative healthcare, health promotion and the management of health workers and oversight of facilities.

16. Increased non-wage recurrent grant allocations going forwards, will enable the roll out of results based financing, linking the allocation of funds to facilities based on their performance. They will also allow increased funding to the management of service delivery by higher local governments.

17. The primary purposes of sector **development grants** are to fund the rehabilitation, upgrading, construction and equipping of schools and health facilities. This involves:

- For education, the renovation, construction and equipping of classrooms, latrines, laboratories and teachers housing.
- For health, the renovation, construction and equipping of buildings at health facilities, including outpatient departments, wards, theatres, drug stores, health worker housing. The focus will be on filling gaps in infrastructure in existing HCIIIs and HCIVs and where appropriate upgrading facilities.
- A share of the grants can also be used for capacity development, to help improve local government management and service delivery performance. Typical capacity building activities include short courses relevant to position (not degree programs), and procurement of training equipment, for example, computers,

18. Development grants are allocated and managed at the district/municipal level by the education and health departments.

19. A set of **budget requirements** set out the policies and principles for allocating funds to facilities, higher local government management, and sector development expenditures in line with policy priorities and standards.

20. Each window of the grant has a new, enhanced **allocation formulae**. The new formulae are set out below.

**Table 1. 2. Enhanced Formulae for Grants**

**Primary Education Non-Wage Recurrent (NWR) Allocation Formula**

<b>Variable</b>	<b>Weight</b>	<b>Justification</b>
Population of school going age (Primary & Pre Primary)	15	Proxy for the number of potential children who should be in school.
Number of learners in primary school.	75	The actual number of children in school, a key driver for operational costs
Percentage of children passing Primary Leaving Examinations, grade 1 to 3	6	Those local governments with lower proficiency in English and Math will receive additional resources, which will help equalize key education performance outcomes
Population in Hard to Reach, Hard to Stay Areas	2	Mountainous, islands, rivers, and so on have peculiar terrain. Provides greater allocations to areas where costs are likely to be higher
Land area	2	Cost indicator reflecting the cost of providing education, especially in sparsely populated areas with a large land size for example, Karamoja region

**Secondary Education NWR Allocation Formula**

<b>Variable</b>	<b>Weight</b>	<b>Justification</b>
Population of school going age (Secondary)	15	Proxy for the number of potential children who should be in school.
Number of learners in Secondary school.	75	The actual number of children in school, a key driver for operational costs
Population in Hard to Reach, Hard to Stay Areas	2	Mountainous, islands, rivers, and so on have peculiar terrain. Provides greater allocations to areas where costs are likely to be higher



Variable	Weight	Justification
Land area	2	Cost indicator reflecting the cost of providing education, especially in sparsely populated areas with a large land size for example, Karamoja region
Percentage of Candidates passing Uganda Certificate of Education in Division 1	6	Those local governments with poorer exam results will receive additional resources, which will help equalize key education performance outcomes

#### Allocation Formula for PHC NWR Grants

Variable	Weight	Justification
Population	60	Population represents the overall target beneficiaries, is an indicator of demand for health services & scale of services required
Infant Mortality	7	Equalizing health outcomes: most of the causes of infant mortality are preventable using already proven interventions. These include immunization, ORS, nutrition and hygiene. Therefore, strengthening the health system will address the causes that enhance disparities in IMR.
Poverty Headcount	2	Approximates socio-economic goal of increasing access for poorer communities
Fixed Allocation	4	A fixed allocation to cover the running of the health department
Number of HCIII and IV	25	A constant amount to cover the fixed cost of running a HCIII and IV, with 30 percent going to HCIII and 70 percent to HCIV
Population in Hard to Reach Hard to Stay Areas	2	Mountainous, islands, rivers, and so on have peculiar terrain. Provides greater allocations to areas where costs are likely to be high.

#### Allocation Formula for Hospital NWR Grants

Variable	Weight	Justification
Population of HLGs with Public or PNFP Hospitals	82	Population of districts with hospitals represents a proxy for demand for hospital services and the scale of services required.
Infant Mortality	10	Equalizing health outcomes: most of the causes of infant mortality are preventable using already proven interventions. These include immunization, ORS, nutrition and hygiene. Strengthening the health system will address the causes that enhance disparities in IMR.
Poverty Headcount	2	Approximates socio-economic goal of increasing access for poorer communities
Fixed Allocation	6	A fixed allocation to cover the running of the health hospital

#### Allocation Formula for Education Development Grant

Variable	Weight	Justification
Population of school going age (Primary & Pre Primary & Secondary)	64	Proxy for the number of potential children who should be in school.
% Scoring Grade 1 in UCE	6	Those local governments with lower proficiency in English and mathematics will receive additional resources, which will help equalize key education performance outcomes
Percentage of children passing PLE grade 1 to 3	6	
Population in Hard to Reach, Hard to Stay Areas	2	Mountainous, islands, rivers, and so on have peculiar terrain. Provides greater allocations to areas where costs are likely to be higher
Land area	2	Cost indicator reflecting the cost of providing education, especially in sparsely populated areas with a large land size
Fixed Allocation	20	To ensure that there is a minimum development grant allocation for each LG

### Allocation Formula for Health Development Grant

Variable	Weight	Justification
Population	25	Population represents the overall target beneficiaries, and is an indicator of demand for health services and the scale of services required
Poverty Headcount	10	Approximates socio-economic goal of increasing access for poorer communities
Population in Hard to Reach Hard to Stay Areas	5	Mountainous, islands, rivers, and so on have peculiar terrain. Provides greater allocations to areas where costs are likely to be high.
Population per HCIII, HCIV or Hospital	50	This is an indicator of the degree to which local governments are lagging behind in terms of access to a major health facility.
Infant Mortality	10	Equalizing health outcomes: most of the causes of infant mortality are preventable using already proven interventions. These include immunization, ORS, nutrition and hygiene. Therefore, strengthening the health system will address the causes that enhance disparities in IMR.

### III. Typology of Activities of the Program

21. There are two main groups of activities supported by the Program. Firstly, the management of redesigned grants in the context of the budget cycle, and secondly the management of the annual cycle of performance assessment and improvement. Table 1.3 below shows a timeline for a typical financial year, for the two groups of activity.

22. **The Grant and Budget Cycle, in a typical year will involve:**

- **National Budgeting for Local Government Grants:** This process starts with the annual negotiations between central government and LGs, chaired by the LGFC on conditional grants, and associated guidance, which should take place in August each year. This will inform any revisions to grant guidelines. Alongside this any new data required in formula calculations will be collected. In September each year, MoFPED prepares the first budget call circular, which will involve updating the MTEF with aggregate grant allocations from the Medium Term Plan for uplifting transfers and phasing in the formulae. From this the first set of Indicative Planning Figures (IPFs) will be generated on OTIMS for use in LGBFP preparation. In September of each year the Regional Budget Framework Paper Workshops take place, and these represent an important opportunity to disseminate revised grant guidelines and IPFs. Following the preparation of National and Local BFPs, and feedback from Parliament, the IPFs are updated in the second budget call circular for preparation of the Draft Budget. These will also be adjusted based on the results of the Annual Performance Assessment. IPFs are finalized by MoFPED following the submission of the draft budget to Parliament in June.
- **LG Budget Preparation:** LGs prepare their BFPs, using a consultative process, between September and November each year. Following receipt of the second IPFs they prepare draft Annual Workplans and Budgets which form the basis of the Performance Contract signed between the LG accounting officer and the PS/ST. The draft performance contract is submitted in March. LGs finalize their performance contracts, workplans and budgets based on the final IPFs and the feedback from the assessment of budget requirements (see

below). LGs currently prepare the budgets on the Output Budgeting Tool (OBT), which is due to be replaced by the Performance Budgeting System (PBS) from 2018/10.

- **Grant Releases:** MoFPED issues quarterly expenditure limits in the first month of each quarter and load them onto the IFMIS. Local Governments then prepare warrants on the system, after which releases are made by MoFPED.
- **Budget Reporting:** Local governments prepare quarterly progress reports on revenues, expenditures and outputs by the end of the month of the close of the quarter using the OBT/PBS.

**Table 1.4 Timeline of Program Activities**

Activity	Responsible	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>1. Budget Process and Grant Cycle</b>													
<b>National Budgeting for Local Government Grants</b>													
(i) Negotiations between Sectors and LGs	LGFC	█											
(ii) Data Collection and Validation for formulae	LGFC		█										
(iii) Allocations in MTEF Provision of IPFs for First Budget Circular (for BFP)	MoFPED			█	█								
(iv) Dissemination of Guidelines (Regional BFP Workshops)	MoFPED & Sectors				█	█							
(v) IPFs for Second Budget Call Circular (for Draft Budget)	MoFPED & Sectors							█	█				
(vi) Final MTEF, Budget Allocations & MTEF	MoFPED & Sectors											█	█
<b>LG Budget Preparation</b>													
(i) BFP Preparation	MoFPED & Sectors					█							
(ii) Draft Budget and Performance Contract	MoFPED & Sectors							█	█				
(ii) Final Budget and Performance Contract	MoFPED & Sectors											█	█
<b>Grant Releases</b>													
(i) Issuing and Loading of Expenditure Limits	Directorate of Budget	█						█					
(ii) Warranting by LGs	LGs				█	█							
(ii) Quarterly Release	Acc Gen & BoU	█									█	█	
<b>Local Government Budget Reporting</b>													
(i) Quarterly budget performance reports	Lgs	█			█			█			█		
<b>2. LG Assessment and Performance Improvement Cycle</b>													
<b>Annual Performance Assessment</b>													
(i) Procurement of Assessment Firm	OPM	█											█
(ii) Accountability Requ. and Functional Processes & Systems Assessments	Firm(s)		█	█	█	█	█						
(iii) Quality Assurance of Sample of Assessments	Firm(s)				█	█	█						
(iv) Publicising of assessment results	OPM							█	█				
(vi) Recomputation of IPFs for BCC 2	MoFPED							█	█				
(vii) Assessment of Budget Requirements	Firm(s)									█	█	█	█
<b>Performance Improvement Planning</b>													
(i) Identify LGs and Thematic Areas for improvement	MoES, MoH & MoLG						█						
(ii) Assemble teams and procure Consultancy Support to PIP improvement	MoES, MoH & MoLG							█					
(iii) Develop LG Performance Improvement Plans	LGs, MDAs								█				
(iv) Develop Thematic Performance Improvement Plans	MDAs									█			
(vi) Implement Performance Improvement Plan	LGs, MDAs										█	█	█
(vii) PIP report(s)	MoES, MoH & MoLG	█											
(viii) Determine Impact of PIPs as per results of the assessment	MoES, MoH & MoLG						█						

23. **The Cycle Performance Assessment and Performance Improvement** involves two six monthly periods:

- **The Annual Performance Assessment:** The assessment is carried out by an independent firm, and procurement will start in May of the previous financial year. The assessment of accountability requirements and functional processes and systems will take place between August and December each year. In parallel a quality assurance firm will be contracted which will verify a sample of assessments. The results will be validated by OPM and sector ministries and agreed by the LGPA Task Force by the end of December and by the SC in January/February and subsequently published. Following this, the IPFs will be adjusted for development grants prior to the issuing of the second budget circular. The assessment of budget requirements will take place between March and June and feed into the finalization of LG budgets.

- Performance Improvement Planning.** In December each year, alongside the finalization of the annual assessment the LG-PI task force, under the coordination of MoLG, will identify the local governments and thematic areas to be placed on Performance Improvement Plans based on the assessment results. Teams to prepare and implement PIPs will also be assembled by the LG-PI task force. In January of each year PIPs will be prepared. Teams will visit LGs to agree PIPs based on their assessment results, and thematic PIPs will be prepared. Between February and June PIPs will be implemented and LGs and Line Ministries will report on progress in July following the close of the year. Following the completion of the Annual Assessment, a report determining the impact of PIPs will be prepared.

**Table 1. 3. Process for Managing the Assessment Process**

Issue	Core Budget and Accountability Requirements	Functional LG Processes and Systems (generic and sectors)
Method of assessment?	Review of performance contracts and accountability reports	Review of documents/desk based and field based assessment for qualitative indicators
Who should assess?	Contracted out to an independent private firm(s) – credibility, neutrality and timeliness of the assessment process	
Who provides Quality Assurance	Contracted out to a separate independent private firm – to validate the results	
Who manages the process?	OPM – coordinator of overall Government M&E with support from the LG PA Task force	
When is the assessment done?	April/May each year to inform appointment of Accounting Officers	August to November each year to inform the development grant allocation for the coming FY.
Who validates the results?	Respective LG PA Task Force in collaboration with the ministries	
Who approves the results?	LGROC - inter-ministerial committee	
How are poor performing LGs supported?	Targeted support involving all MDAs coordinated by MoLG	

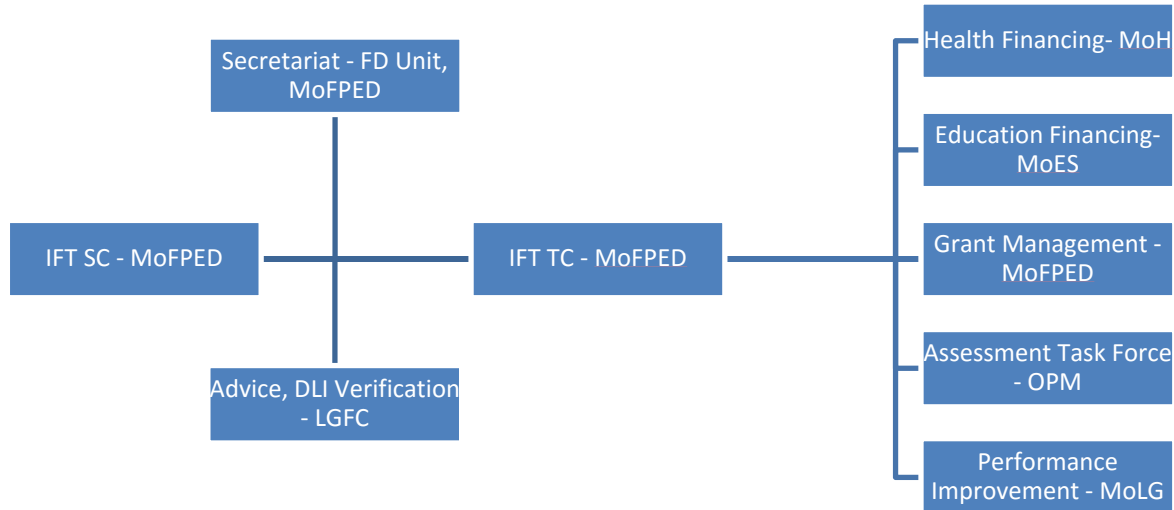
24. In the first year of the Program an exercise of updating and disseminating manuals relating to the management of resources in local governments will take place. This will focus on updating sector budgeting guidelines, sector investment guidelines and facility guidelines, ensuring that, inter alia, fiduciary and safeguard issues are taken care of.

#### IV. Institutional Arrangements

25. **The roles of the relevant government agencies within the Program (MoFPED, OPM, MoLG and the Ministries of Education and Health) are well-defined with respect to decentralization.** The main responsibilities for each ministry as they may apply to the Program are described below.

26. **MoFPED is responsible for coordinating the budget process with respect to LG and managing intergovernmental fiscal transfers, including those supported by the Program.** The Fiscal Decentralization Unit coordinates the local government budget process, LG budget reporting, the compilation of Grant Allocations for Local Government and the release of grants to local governments. It also coordinates reform implementation.

**Figure 1.2. Structure of Program Management**



27. The Department of M&E in the **OPM** will coordinate the LG performance assessment, and manage the assessment process. In doing so, the OPM chairs a task force established to oversee the assessment process. The task force involves representatives from line ministries, MoLG, MoFPED and LGFC.

28. **The MoLG** will be responsible for coordinating the process of targeted Local Government Performance Improvement, with the health and education ministries and other relevant parties, and for ensuring clear communication to stakeholders, including LGs, of their roles in the context of the Program. The MoLG will chair a LGPI task force made up of relevant stakeholders.

29. **The Ministries of Health and Education are responsible for sector policies and strategies which govern local service delivery, developing grant guidelines, the associated formulae and grant allocations and medium term grant allocations within sector ceilings.** They will also be responsible for overseeing the sectoral elements of the assessment process, providing targeted technical support to local governments in their sectors.

30. **The FD Technical Committee will be responsible for coordinating, at a technical level, the grant and assessment framework, and the interface between performance assessment grant allocations and targeted technical support.** It will also verify, at a technical level the achievement of DLIs. The Committee is chaired by MoFPED.

31. **The FD Steering Committee will be established, specific to the Program, made up of the Permanent Secretaries of Ministries of Health, Education, OPM, MoLG, LGFC and chaired by MoFPED.** This committee will be responsible for monitoring and ensuring the Program DLIs are met and deal with any high level implementation issues.

32. **The LGFC** will advise these two Committees on issues relating to local government financing, and also verify all DLIs except those relating to the LG performance assessment. The FDU will provide the secretariat function.

33. **Finally, it is important to emphasize the role of LGs. They will be responsible for:** preparation of LG budgets and work plans which adhere to requirements set out in grant guidelines; generating accounting warrants to access releases; delivery of services and infrastructure; preparing quarterly budget performance reports; capacity building. Poorly performing LGs will be required to also agree and implement the performance improvement plans.

## Annex 2: Results Framework Matrix

### Results Framework

**PDO: To improve the adequacy and equity of fiscal transfers and improve fiscal management of resources by Local Governments for health and education services.**

Results Areas Supported by PforR	PDO/Outcome Indicators (Key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results Indicators (critical processes, outputs or intermediate outcomes indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Meas.	Baseline (Year)	End Target (Year)	
<b>Enhancing Adequacy of Fiscal Transfers for Education and Health Services</b>	PDO Indicator 1: Annual percentage increase in sector conditional grants to LGs for education and health services (four-year moving average).		1.1	Education, %	n/a (2016/17)	7.5% (2021/22 t)	
			2.1	Health, %	n/a (2016/17)	13.25% (2021/22 t)	
		IR Indicator 1.1: Average conditional non-wage recurrent grants for education and health services per beneficiary.	n/a		Education, UGX per child of primary/secondary school going age	Primary: 6,815 Secondary: 14,717 (2016/17 budget)	Primary: 11,430 Secondary: 24,746 (2021/22 budget)
					Health, UGX per capita	1,295 (2016/17 budget)	3,198 (2021/22 budget)
		IR Indicator 1.2: Average conditional development grants for education and health services per beneficiary.	n/a		Education, UGX per child of school going age,	2,260 (2016/17 budget)	6,432 (2021/22 outturn)
					Health, UGX per capita	321 (2016/17 budget)	1,804 (2021/22 outturn)
		IR Indicator 1.3: Number of service delivery structures constructed or rehabilitated.	n/a		Number of education structures (classrooms, latrines, teacher houses, admin blocks)	2,909 (2015/16 outturn)	5,275 (2021/22 outturn)
					Number of health structures (staff	780 (2015/16 outturn)	4,365 (2021/22 outturn)

Results Areas Supported by PforR	PDO/Outcome Indicators (Key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results Indicators (critical processes, outputs or intermediate outcomes indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Meas.	Baseline (Year)	End Target (Year)
				houses, wards and theatres)		
Enhancing Equity of Fiscal Transfers for Education and Health Services	PDO Indicator 2: Conditional non-wage recurrent grants per beneficiary of the 20 least funded Districts as a % of the 20 best-funded Districts.		n/a	Education, per child of school going age: %	33% (2016/17 budget)	46% (2021/22 outturn)
				Health, per capita: %	22% (2016/17 budget)	38% (2021/22 outturn)
		IR Indicator 2.1 Average conditional non-wage recurrent grants for education and health services per beneficiary for the 20 least funded Districts.	n/a	Education - UGX per child of school going age	8,303 (2016/17 budget)	17,349 (2021/22 outturn)
				Health - UGX per capita	692 (2016/17 budget)	2,120 (2021/22 outturn)
		IR Indicator 2.2 Enhanced, equitable formula for conditional non-wage recurrent grants in health and education phased in as per plan.	1.2	Education – Yes/No	No (2016/17 Budget)	Yes (2021/22 outturn)
			2.2	Health – Yes/No	No (2016/17 Budget)	Yes (2021/22 outturn)
	PDO Indicator 3: % share of the education and health development grants made to the 30 least served Districts.		n/a	% transfers to 30 Districts with lowest enrolment rates	20% (2016/17 Budget)	21% (2021/22 outturn)
			n/a	% transfers to 30 Districts with highest population per health of facility	39% (2016/17 budget)	35% (2021/22 outturn)
		IR Indicator 3.1: Number of service delivery structures constructed or rehabilitation in the 30 least served Districts.	n/a	No. classrooms in the 30 Districts with lowest enrolment rates	574 (2015/16 outturn)	1,110 (2020/21 Outturn)
				No. Health facility structures (staff houses, wards and theatres) in the 30	159 (2015/16 outturn)	786 (2020/21 Outturn)



Results Areas Supported by PforR	PDO/Outcome Indicators (Key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results Indicators (critical processes, outputs or intermediate outcomes indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Meas.	Baseline (Year)	End Target (Year)					
				Districts with highest population per health of facility							
		IR Indicator 3.2 Enhanced, equitable formula for conditional development grants in health and education implemented as planned.	1.3	Education – Yes/No	Yes but without the performance-based component (2016/17 Budget)	Yes (2021/22 outturn)					
			2.3	Health – Yes/No	No (2016/17 Budget)	Yes (2021/22 outturn)					
<b>Improvement in Fiscal Management of Education and Health Services</b>	PDO Indicator 4a: The fiscal management of education resources by LGs overall does not deteriorate.		1.4	Education Yes/No	Not Assessed (2016/17)	Yes (2020/21)					
			2.4	Health Yes/No	Not Assessed (2016/17)	Yes (2020/21)					
	PDO Indicator 4b: The fiscal management of health resources in the 20 worst performing LGs does not deteriorate.		1.4	Education Yes/No	Not Assessed (2016/17)	Yes (2020/21)					
			2.4	Health Yes/No	Not Assessed (2016/17)	Yes (2020/21)					
		IR Indicator 4.1: Annual Performance Assessments of Local Governments Completed.	3	Percent of LGs	0 (2016/17)	100 (2020/21)					
							IR Indicator 4.2: Number of Performance Improvement Plans prepared for local governments and thematic areas.	3	Numbers of LGs and thematic areas.	0 LGs and 0 Areas (2016/17)	20 LGs and 2 areas (2021/22)

## Indicator Description

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
PDO Indicator 1: Annual percentage increase sector conditional grants (wage, non-wage recurrent, and development) to LGs for education and health services.	% annual increase in sector wage, non-wage recurrent and development grant budget allocations in the FY relative to the previous FY expressed for health and education sectors (see DLIs 1.1 and 2.1).	Annual	Annual Budget	OTIMS	MoFPED	LGFC	No
IR Indicator 1.1: Average conditional non-wage recurrent grant for education services per beneficiary	For Education: the total sector non-wage recurrent conditional grants transferred to all LGs in the FY divided by the number of children of school going age in all LGs.  For Health: the total sector non-wage recurrent conditional grants transferred to all LGs in the FY divided by the total population in all LGs.	Annual	Annual Budget	OTIMS	MoFPED	n/a	n/a
IR Indicator 1.2: Average conditional development grants for education and health services per beneficiary	For Education: the total sector development conditional grants transferred to all LGs in the FY divided by the number of children of school going age in all LGs.  For Health: the total non-wage recurrent sector conditional grants transferred to all LGs in the FY divided by the total population in all LGs.	Annual	Annual Budget	OTIMS	MoFPED	n/a	n/a
IR Indicator 1.3: Number of service	Total number of service delivery structures reports as constructed	Annual	Annual Budget	OBT / PBS	MoFPED	n/a	n/a

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
delivery structures constructed or rehabilitated.	or rehabilitated by all LGs from all funding sources in annual budget performance reports.		Perf. Report				
PDO Indicator 2: Conditional non-wage recurrent grants per beneficiary of the 20 least funded Districts as a % of the 20 best-funded Districts.	<p>The average of non-wage recurrent transfers per beneficiary for the 20 worst funded districts expressed as a percentage of the average for the twenty best-funded in the approved budget for the FY.</p> <p><i>Education:</i> The twenty least funded districts are defined as the 20 districts with the lowest budget allocations or releases of non-wage recurrent grants per child of school going age. The twenty best funded districts are defined as the 20 districts with the highest of budget allocations or releases of non-wage recurrent grants per child of school going age.</p> <p><i>Health:</i> Twenty least funded districts are defined as the 20 districts with the lowest releases of non-wage recurrent grants per capita (population) and the twenty best funded districts are defined as the 20 districts with the highest releases of non-wage recurrent grants per capita (population).</p>	Annual	Annual Budget	OTIMS	MoFPED	n/a	n/a
IR Indicator 2.1 Average conditional non-wage recurrent grants for education	The average value of non-wage recurrent transfers per beneficiary for the 20 worst funded districts.	Annual	Annual Budget	OTIMS	MoFPED	n/a	n/a

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
and health services per beneficiary for the 20 least funded Districts.	<p><i>Education:</i> The twenty least funded districts are defined as the 20 districts with the lowest budget allocations or releases of non-wage recurrent grants per child of school going age.</p> <p><i>Health:</i> Twenty least funded districts are defined as the 20 districts with the lowest releases of non-wage recurrent grants per capita (population).</p>						
IR Indicator 2.2 Enhanced, equitable formula for conditional non-wage recurrent grants in health and education phased in as per plan.	FY budget allocations and previous FY releases for health and education non-wage recurrent conditional grants consistent with agreed formula phase in plan, and publicly available online. (See DLI 1.2 and 2.2).	Annual	Annual Budget	OTIMS	MoFPED	LGFC	No
PDO Indicator 3: % share of the education and health development transfers made to the 30 least served Districts.	<p>The total allocations to the 30 least served districts expressed as a percentage of total district allocations.</p> <p><i>Education:</i> Least served is defined as the lowest enrolment relative to school aged population which is the total enrolment in primary, secondary and BTVET institutions divided by the total school aged population.</p> <p><i>Health:</i> Least Served is defined as the districts with the highest population per health facility, which is the total population</p>	Annual	Annual Budget	OTIMS	MoFPED	n/a	n/a

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
	divided by the total number of HCIIIs and HCIVs.						
IR Indicator 3.1: Number of service delivery structures constructed or rehabilitation in the 30 least served Districts.	Number of structures reported as being constructed or rehabilitated by local governments in the 30 least served LGs as defined above.	Annual	Annual Budget Perf. Report	OBT / PBS	MoFPED	n/a	n/a
IR Indicator 3.2 Enhanced, equitable formula for conditional development grants in health and education implemented as planned.	FY budget allocations and previous FY releases consistent with agreed formula phase in plan, and publicly available online. (See DLI 1.3 and 2.3).	Annual	Annual Budget	OTIMS	MoFPED	LGFC	No
PDO Indicator 4a: The fiscal management of education resources by LGs overall does not deteriorate.	The average score on the education resources management in the annual performance assessment for all LGs does not deteriorate (See DLIs 1.4 and 2.4).	APA / OPAMS	Average score in APA overall	OPM	LGPA Task Force	No	No
PDO Indicator 4b: The fiscal management of health resources in the 20 worst performing LGs does not deteriorate.	The average score on the education resources management in the annual performance assessment for the 20 worst performing LGs in the assessment does not deteriorate. (See DLIs 1.4 and 2.4).	APA / OPAMS	Average score in APA for worst 20	OPM	LGPA Task Force	No	No
IR Indicator 4.1: Annual Performance Assessments of Local Governments Completed.	Annual performance assessment of the previous FY is conducted, validated and publically disseminated. (See DLI 3.3).	APA / OPAMS	Taken place for all HLGs	OPM	LGPA Task Force	n/a	No
IR Indicator 4.2: Number of Performance	Number of Performance Improvement Plans prepared for and agreed with local	Annual	Annual Budget	Signed PIPs	MoLG	LGPI Task Force	No

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
Improvement Plans prepared for local governments and thematic areas.	governments and for thematic areas of underperformance. (See DLI 3.2).		Perf. Report				
IR Indicator 4.3: Value for Money Audit completed.	A VfM audit is conducted of local government expenditures in health and education on a sample basis as specified in the POM. (See DLI 3.3).	First and last year of Program	VfM audit Report	Report	MoLG	LGPI Task Force	No

### Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

1. **The Disbursement-Linked Indicators (DLIs) of the Program are linked to the delivery of adequate, equitable fiscal transfers and improved fiscal management of resources for service delivery in health and education.** The DLI matrix groups DLIs in to three Results Areas for health and then education across these three dimensions as well as cross-cutting DLIs for performance assessment and improvement:

- **Results Area 1:** Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for *Education* Services (US\$130 million is linked to the achievement of DLRs in Education)
- **Results Area 2:** Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for *Health* Services (US\$55 million is linked to the achievement of DLRs in Health)
- **Results Area 3:** Improvement in Fiscal Management of Education and Health Services (US\$15 million is linked to the achievement of Cross Cutting DLRs in Performance Assessment and Targeted Performance Improvement in Local Governments)

2. **The PS/ST of MoFPED, as chair of the FD Steering Committee, will report to the World Bank on achievement of DLIs.** The FD Technical Committee, chaired by MoFPED will be responsible for overseeing the reporting on DLIs and the verification of the associated results. The LGFC will be responsible for verifying all DLIs except those relating to the results of the Performance Assessment, which will be verified by an independent firm which will provide quality assurance.

**Table 3.1. Verification Arrangements**

DLI Area	DLI 1.4, 2.4, and 3a Performance Assessment & Results	DLI 3b, 3c Performance Improvement & VfM Audit	DLIs 1.1, 1.2, 1.3 Education Financing	DLIs 2.1, 2.2, 2.3 Health Financing
Compilation of Results	Contracted firm OPM / review by LGPA-TF Dec FY0	MoLG/LGPI-TF 15 <sup>th</sup> Feb FY0	MoFPED July 15 <sup>th</sup> FY0	
Verification of Results	Independent QA Firm Dec 31 <sup>st</sup> FY0 <sup>12</sup> provides inputs to the FD-TC 15 <sup>th</sup> Jan for verification FY 0	LGFC Feb 28 <sup>th</sup> FY0	LGFC July 31 <sup>st</sup> FY0	
Endorsement by GoU and forwarding to WB by MoFPED		FD TC 15 <sup>th</sup> March FY0	IFGT TC July 31 <sup>st</sup> FY0	
	IFT SC 31 <sup>st</sup> Jan FY0	FD SC 31 <sup>st</sup> March FY0	IFT SC August 15 <sup>th</sup> FY0	
Endorsement by WB	April 15 <sup>th</sup> FY0		August 31 <sup>st</sup> FY0	

<sup>12</sup> Audit results ready by end of December will be incorporated in first week of January.

3. **Reporting on DLIs relating to Education Financing (1.1, 1.2 and 1.3) and Health Financing (2.1, 2.2 and 2.3) will be conducted by the MoFPED**, coordinated by the Fiscal Decentralization Unit. This involves collecting and checking approved budget and release information. Achievement against DLIs will first be checked by the LGFC prior to the finalization of the budget/end of the financial year, to allow correction for any errors which may jeopardize the achievement of DLIs. Then the final MTEF, approved budget and annual budget disbursement numbers will be used to compile the report. These will then be forwarded to LGFC for verification and to FD TC and then FD SC for endorsement. Hence the major steps will be:

- i. Compilation of data and results (MoFPED for 1.1,1.2,1.3 and 2.1, 2.2. and 2.3);
- ii. Verification of results by LGFC
- iii. Endorsement of results by FD TC (technically) and FD SC (high level) and then World Bank

4. **Reporting on results for DLIs relating to the annual assessment will be done by OPM (1.4, 2.4 and 3a)**. OPM will contract a firm to conduct the annual performance assessment (see the LG PAM, Volume II of the POM, and firm to provide quality assurance to the Annual Assessment Process which underpins DLIs (1.4, 2.4, 3a). Hence the major steps will be as follow (see Volume II for details):

- i. Contracted company does the annual performance assessment of all districts and municipalities
- ii. Quality assurance of sample LGs with reconciliation of variation
- iii. Review and check by the Performance Assessment Task Force
- iv. Verification by the FD TC
- v. Endorsement by the IFT- SC and then World Bank

5. **Reporting on DLI 3b and 3c** will be conducted by MoLG, and the steps for verification and endorsement will be as follows:

- i. Reporting by the MoLG/LGPI Task force to LGFC
- ii. LGFC verifies
- iii. FD-TC technical review, endorsement by FD – SC, and decision by the World Bank

6. **The IDA will retain the right to make the final decision on whether a DLR has been achieved or not**. Consultants will be employed by IDA to support the review of verification reports.

7. **If DLRs relating fiscal transfers are not achieved in a given FY, then provisions have been built in to enable corrective action to be taken in the following year**. However, if DLIs relating to performance in fiscal management, and the associated performance assessment and improvement plans, then there can be no catching up in the following year. Significant delays in the performance assessment would result in delays in the achievement of the transfer related DLRs – due to the interdependence of DLIs, this represents a significant risk to disbursement under the Program, and therefore the procurement and management of the assessment process will be closely monitored.



### Disbursement Linked Indicator Matrix for UgIFT Program

Disbursement Linked Indicators	DLI Baseline	Year 1 - FY2017/18 <i>By end June 2018</i>	Year 2 - FY2018/19 <i>By end June 2019</i>	Year 3 - FY2019/20 <i>By end June 2020</i>	Year 4 - FY2020/21 <i>By end June 2021</i>	Year 5 - FY2021/22 <i>By end June 2022</i>
<b>Results Area 1: Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for Education Services</b>						
<b>DLI 1.1: Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for education services</b>	Allocations to conditional grants for the education sector is planned at 1,419 UGX billion for 2017/18	MTP for increasing budget allocations to the transfers reflected in the MTEF and the approved budget with allocations to education sector conditional grants for 2018/19 at least 6 percent higher than in 2017/18	MTP for increasing budget allocations to the transfers reflected in the MTEF and the approved budget with allocations to education sector conditional grants for 2019/20 at least 10 percent higher than in 2018/19	MTP for increasing budget allocations to the transfers reflected in the MTEF and the approved budget with allocations to education sector conditional grants for 2020/21 at least 7 percent higher than in 2019/20	MTP for increasing budget allocations to the transfers reflected in the MTEF and the approved budget with allocations to education sector conditional grants for 2021/22 at least 7 percent higher than in 2020/21	MTP for increasing budget allocations to the transfers reflected in the MTEF and the approved budget with allocations to education sector conditional grants for 2022/23 not lower than in 2021/22
	Disbursement	US\$4 million	US\$4 million	US\$4 million	US\$4 million	US\$4 million
	<i>Explanation: This DLI is intended to deliver adequate resources for education services, ensuring that (i) additional budget allocations needed for increasing budget allocations to the transfers and phasing in the formulae for conditional non-wage recurrent and development grants for education are in place (DLIs 1.2 and 1.3) in line with GoU's plan; and (ii) increase in these allocations does not come at the expense of increasing wage allocations, and (iii) there is fiscal space for complementary increases in the wage grant (for example, for hiring teachers for the newly built or renovated classrooms).</i>					
<b>DLI 1.2: Enhanced, equitable formula for operational grants in education phased in as planned</b>	Enhanced formula drafted but not implemented.	Enhanced formula and phase in plan adopted and the 2018/19 budget allocations consistent with formula phase in plan and publicly available online.	2019/20 budget allocations consistent with formula phase in plan, and publicly available online.	2020/21 budget allocations are consistent with formula phase in plan, and publicly available online; performance incentives are in place.	2021/22 budget allocations are consistent with formula phase in plan, and publicly available online; performance incentives are in place.	2022/23 budget allocations are consistent with formula phase in plan, and publicly available online; performance incentives are in place.
		2017/18 releases publicly available online.	At least 97% of 2018/19 budgeted transfers are released to all LGs. Releases publicly available online.	At least 97% of 2019/20 budgeted transfers are released to all LGs. Releases publicly available online.	At least 97% of 2020/21 budgeted transfers are released to all LGs. Releases publicly available online.	At least 97% of 2021/22 budgeted transfers are released to all LGs. Releases publicly available online.
	Disbursement	US\$14 million	US\$14 million	US\$14 million	US\$14 million	US\$14 million
	<i>Explanation: This DLI involves the phase in of the enhanced formula will deliver adequate, equitable funding to LGs for the running costs of schools and district/municipality education offices. School level performance will be incentivized from 2020/21 within overall grant allocations - a performance-based component will affect allocations to schools within LGs based on new performance assessments at the facility level. The formula will be phased-in gradually in a course of the Program implementation. The DLI specifies at least 97% of budgeted grants should be released, which will ensure predictability of resources to LGs, whilst allowing for minor errors and revenue shortfalls.</i>					

<b>Disbursement Linked Indicators</b>	<b>DLI Baseline</b>	<b>Year 1 - FY2017/18 By end June 2018</b>	<b>Year 2 - FY2018/19 By end June 2019</b>	<b>Year 3 - FY2019/20 By end June 2020</b>	<b>Year 4 - FY2020/21 By end June 2021</b>	<b>Year 5 - FY2021/22 By end June 2022</b>
<b>DLI 1.3: Enhanced, equitable formula for development grants in education implemented as planned</b>	2017/18 budget allocations in line with formula without performance element and publicly available online.	2018/19 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2019/20 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2020/21 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2021/22 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2022/23 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.
	2016/17 budget disbursements are available online (in document form) are available online.	The 2017/18 transfers are available online.	At least 97% of 2018/19 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.	At least 97% of 2019/20 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.	At least 97% of 2020/21 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.	97% of 2021/22 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.
	Disbursement	US\$6 million	US\$6 million	US\$6 million	US\$6 million	US\$6 million
	<i>Explanation: This DLI involves the introduction of an enhanced formula, which will deliver increased, equitable funding for LG investments in education facilities and capacity development. The enhanced formula will incentivize improved management of education resources from 2018/19 - a performance-based component affecting allocations to LGs starting from 2018/19, after the LG performance assessment is implemented. The basic formula has been already implemented, and its implementation has to be sustained during the Program duration, The DLI specifies at least 97% of budgeted grants should be released, which will ensure predictability of resources to LGs, whilst allowing for minor errors and revenue shortfalls.</i>					
<b>DLI 1.4: The quality of fiscal management of education resources by LGs is maintained</b>	No performance assessment. Grant guidelines do not address all fiduciary, environmental and social risks.	Guidelines at the LG and school level updated, addressing fiduciary, environmental and social risks and grievance redress.	The average score on the education resources management in the annual performance assessment is not lower than in 2017/18	The average score on the education resources management in the annual performance assessment and the average score of the 20 worst LGs are both not lower than in 2018/19.	The average score on the education resources management in the annual performance assessment and the average score of the 20 worst LGs are both not lower than in 2019/20.	The average score on the education resources management in the annual performance assessment and the average score of the 20 worst LGs are both not lower than in 2020/21
	Disbursement	US\$2 million	US\$2 million	US\$2 million	US\$2 million	US\$2 million
	<i>Explanation: This DLI provides incentives to for the education sector to maintain and improve the management of resources for Local Governments overall and in LGs and thematic areas where performance is weakest. This will help ensure that performance assessments (carried out under DLI 3a) and incentives (integrated into grant allocations under DLI 1.2 and 1.3) have an impact. It will also help incentives actors to ensure performance improvement plans (carried out under DLI 3b) focused on poor performing LGs and areas have an impact.</i>					

Disbursement Linked Indicators	DLI Baseline	Year 1 - FY2017/18 By end June 2018	Year 2 - FY2018/19 By end June 2019	Year 3 - FY2019/20 By end June 2020	Year 4 - FY2020/21 By end June 2021	Year 5 - FY2021/22 By end June 2022
Results Area 1	Disbursement	US\$26 million	US\$26 million	US\$26 million	US\$26 million	US\$26 million
<b>Results Area 2: Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for Health Services</b>						
<b>DLI 2.1: Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for health services</b>	Allocations to sector conditional grants for the Health sector is planned at 336 UGX billion for 2017/18	MTP for increasing budget allocations to the transfers reflected in the approved budget and MTEF with allocations to health sector conditional grants for 2018/19 at least 21 percent higher than in 2017/18	MTP for increasing budget allocations to the transfers reflected in the approved budget and MTEF with allocations to health sector conditional grants for 2019/20 at least 11 percent higher than in 2018/19	MTP for increasing budget allocations to the transfers reflected in the approved budget and MTEF with allocations to health sector conditional grants for 2020/21 at least 10 percent higher than in 2019/20	MTP for increasing budget allocations to the transfers reflected in the approved budget and MTEF with allocations to health sector conditional grants for 2021/22 at least 9 percent higher than in 2020/21	MTP for increasing budget allocations to the transfers reflected in the approved budget and MTEF with allocations health sector conditional grants for 2022/23 not lower than in 2021/22
	N/A	US\$2 million	US\$2 million	US\$2 million	US\$2 million	US\$2 million
	<i>Explanation: This DLI is intended to deliver adequate resources for health services, ensuring that (i) additional budget allocations needed for increasing budget allocations to the transfers and phasing in the formulae for conditional non-wage recurrent and development grants for health are in place (DLIs 2.2 and 2.3) in line with GoU's plan; and (ii) increase in these allocations does not come at the expense of increasing wage allocations, and (iii) there is fiscal space for complementary increases in the wage grant (for example, fir hiring doctors for the newly built or renovated primary health centers).</i>					
<b>DLI 2.2: Enhanced, equitable formula for conditional non-wage recurrent grants in health phased in as planned</b>	2016/17 budget releases are available online in document form only.	Enhanced formula and phase in plan adopted and the 2018/19 budget allocations consistent with formula phase in plan and publicly available online.	2019/20 budget allocations consistent with formula phase in plan, and publicly available online.	2020/21 budget allocations are consistent with formula phase in plan, and publicly available online; performance incentives are in place.	2021/22 budget allocations are consistent with formula phase in plan and publicly available online; performance incentives are in place.	2022/23 budget allocations are consistent with formula phase in plan, and publicly available online; performance incentives are in place.
		2017/18 releases publicly available online.	At least 97% of 2018/19 budgeted transfers are released to all LGs. Releases publicly available online.	At least 97% of 2019/20 budgeted transfers are released to all LGs. Releases publicly available online.	At least 97% of 2020/21 budgeted transfers are released to all LGs. Releases publicly available online.	At least 97% of 2021/22 budgeted transfers are released to all LGs. Releases publicly available online.
	Disbursement	US\$4 million	US\$4 million	US\$4 million	US\$4 million	US\$4 million
<i>Explanation: This DLI involves the phase in of the enhanced formula will deliver adequate, equitable funding to LGs for the running costs of health facilities and district/municipality health offices. Facility level performance will be incentivized from 2020/21 within overall grant allocations - a performance-based component will affect allocations to facilities within LGs based on new performance assessments at the facility level. The formula will be phased-in gradually in a course of the Program implementation. The DLI specifies at least 97% of budgeted grants should be released, which will ensure predictability of resources to LGs, whilst allowing for minor errors and revenue shortfalls.</i>						

<b>Disbursement Linked Indicators</b>	<b>DLI Baseline</b>	<b>Year 1 - FY2017/18 By end June 2018</b>	<b>Year 2 - FY2018/19 By end June 2019</b>	<b>Year 3 - FY2019/20 By end June 2020</b>	<b>Year 4 - FY2020/21 By end June 2021</b>	<b>Year 5 - FY2021/22 By end June 2022</b>
<b>DLI 2.3: Enhanced, equitable formula for development grants in health implemented as planned.</b>	2017/18 no budget allocations for conditional health sector development grants and transitional development grants were ad hoc.	2018/19 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2019/20 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	20120/21 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2021/22 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.	2022/23 budget allocations are in line with enhanced formula and phase in plan, linked to performance assessment results and publicly available online.
	2016/17 budget disbursements are available online (in document form) are available online.	The 2017/18 transfers are available online.	At least 97% of 2018/19 budgeted transfers are released to all LGs which meet accountability requirements. Releases and are publicly available online.	At least 97% of 2019/20 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.	At least 97% of 2020/21 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.	97% of 2021/22 budgeted transfers are released to all LGs which meet accountability requirements. Releases are publicly available online.
	Disbursement	US\$3 million	US\$3 million	US\$3 million	US\$3 million	US\$3 million
	<i>Explanation: This DLI involves the introduction of an enhanced formula, which will deliver increased, equitable funding for LG investments in health facilities and capacity development. The enhanced formula will incentivize improved management of health resources from 2018/19 - a performance-based component affecting allocations to LGs starting from 2018/19, after the LG performance assessment is implemented. The basic formula will be introduced in 2018/19 and its implementation has to be sustained during the Program duration, The DLI specifies at least 97% of budgeted grants should be released, which will ensure predictability of resources to LGs, whilst allowing for minor errors and revenue shortfalls.</i>					
<b>DLI 2.4: The quality of fiscal management of health resources by LGs is maintained</b>	No performance assessment Grant guidelines do not address all fiduciary, environmental and social risks.	Grant guidelines at the LG and facility level updated, addressing fiduciary, environmental and social risks and grievance redress.	The average score on the health resources management in the annual performance assessment is not lower than in 2017/18	The average score on the health resources management in the annual performance assessment and the average score of the 20 worst LGs are both not lower than in 2018/19.	The average score on the health resources management in the annual performance assessment and the average score of the 20 worst LGs are both not lower than in 2019/20.	The average score on the health resources management in the annual performance assessment and the average score of the 20 worst LGs are both not lower than in 2020/21
	Disbursement	US\$2 million	US\$2 million	US\$2 million	US\$2 million	US\$2 million
	<i>Explanation: This DLI provides incentives to for the health sector to maintain and improve the management of resources for Local Governments overall and in LGs and thematic areas where performance is weakest. This will help ensure that performance assessments (carried out under DLI 3a), incentives (integrated into grant allocations under DLI 2.2 and 2.3) have an impact. It will also help incentives actors to ensure performance improvement plans (carried out under DLI 3b) focused on poor performing LGs and areas also have an impact.</i>					
<b>Results Area 2</b>	<b>Disbursement</b>	<b>US\$11 million</b>	<b>US\$11 million</b>	<b>US\$11 million</b>	<b>US\$11 million</b>	<b>US\$11 million</b>

Disbursement Linked Indicators	DLI Baseline	Year 1 - FY2017/18 By end June 2018	Year 2 - FY2018/19 By end June 2019	Year 3 - FY2019/20 By end June 2020	Year 4 - FY2020/21 By end June 2021	Year 5 - FY2021/22 By end June 2022
<b>Results Area 3: Improvement in Fiscal Management of Education and Health Services</b>						
<b>DLI 3: LG performance assessments, value for money audits, and fiscal management improvement planning take place</b>	<i>a) Performance Assessment</i> Pilot performance assessment conducted. Initial assessment manual prepared and approved	Annual performance assessment of 2016/17 is conducted, validated and publically disseminated.	Annual performance assessment of 2017/18 is conducted, validated and publically disseminated.  Assessment manual for assessment of FY 2018/19 onwards updated and disseminated to take into account updated procedures in grant manuals and agreed additional performance parameters.	Annual performance assessment of 2018/19 using updated manual is conducted, validated and publically disseminated.	Annual performance assessment of 2019/20 using updated manual is conducted, validated and publically disseminated.	Annual performance assessment of 2020/21 using updated manual is collected, validated and publically disseminated.
	<i>b) Performance Improvement</i> No Performance Improvement Plans	Performance Improvement Plans prepared for and agreed with at least 5 local governments and in 1 thematic areas of underperformance.	Performance Improvement Plans prepared for and agreed with at least 20 local governments and in 2 thematic areas of underperformance.	Performance Improvement Plans prepared for and agreed with at least 20 local governments and in 2 thematic areas of underperformance.	Performance Improvement Plans prepared for and agreed with at least 20 local governments and in 2 thematic areas of underperformance.	Performance Improvement Plans prepared for and agreed with at least 20 local governments and in 2 thematic areas of underperformance.
	<i>c) VfM Audit</i> No VfM Audit		A VfM audit of 2017/18 is conducted in a sample of local governments' expenditures in health and education.			A VfM audit of 2020/21 is conducted in a sample of local government expenditures in health and education.
	Disbursement	US\$3 million	US\$3 million	US\$3 million	US\$3 million	US\$3 million
	<i>Explanation: This is a compound DLI which provides incentives for central government to implement an annual cycle of performance assessment and performance improvement with the objective of improving the fiscal management of resources by LGs. VfM audit will serve as one of the monitoring and evaluation tools, helping to assess the Program's impact on efficiency of public spending, and will be complemented by evaluation provided through accompanying technical assistance by the World Bank. All other DLIs, except DLIs 1.1 and 2.1, cannot be achieved in full without the annual performance assessment (DLI 3a) taking place.</i>					
<b>Results Area 3</b>	<b>Disbursement</b>	<b>US\$3 million</b>	<b>US\$3 million</b>	<b>US\$3 million</b>	<b>US\$3 million</b>	<b>US\$3 million</b>

### DLIs Verification Protocols

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
<b>Results Area 1: Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for Education Services</b>					
<b>DLI 1.1:</b> <b>Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for education services</b>	<p><i>MTP for increasing budget allocations to the transfers reflected in the MTEF with FY1 allocations at least a target percentage higher than in FY0.</i></p> <p>(a) A medium term plan for increasing budget allocations to the transfers and phasing in the formulae which states the annual allocations for sector conditional grants from 2018/19 to 2022/23 is approved by MoFPED and MoES and is in the POM.</p> <p>(b) For the respective Financial Years in the plan allocations to sector grants in the MTEF are greater than or equal to the <i>sum of both</i> allocations to sectoral conditional grants (wage, non-wage recurrent, development) in the plan <i>and</i> any allocations to support services and transitional development grants for the sector.</p> <p>(c) Aggregate medium term allocations for grants consistent with these allocations also available on OTIMS or available online in another form.</p> <p>(d) The percentage increase in total allocations for sector wage, non-wage recurrent and development grants (excluding support services and transitional development grants) between the approved or revised budget for FY1 and FY0 year must be at least the percentage specified in the DLI.</p> <p>If (a) to (d) are not achieved during FY0 then they can be achieved in FY1. In FY1 (d) is</p>	No	MoFPED Medium Term Plan for Increasing budget allocations to the transfers in POM Communication showing MTP approved by PS MoES and PS/ST GoU Approved Budget Approved Budget MTEF	LGFC	<p><b>Year 1</b></p> <p>MoFPED reviews the draft budget estimates and OTIMs before submission to parliament and verifies whether a, b and c are true and correct and makes any adjustments necessary. MoFPED also monitors any subsequent budget adjustments.</p> <p>After the approval of the budget in June, MoFPED reviews the draft budget estimates and OTIMs verifies whether a, b and c are true and provides documentary evidence (excerpts from budget docs, web link and screenshots).</p> <p>It then submits a report to the FD-TC providing evidence that the DLI has been met. LGFC reviews report and advises FD-TC on whether DLI is met.</p> <p><b>Year 2-5</b></p> <p>In addition to repeating the tasks carried out task 2, MoFPED also verifies that d is correct, initially at the time of the draft budget.</p> <p>Following the approval of the budget, MoFPED produces a report and submits it to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	achieved through a supplementary budget during FY1.				
<b>DLI 1.2: Enhanced, equitable formula for operational grants in education phased in as planned</b>	<p><i>Budget allocations consistent with agreed formula phase in plan and publicly available online.</i></p> <p>(a) A formula approved by the MoES is in place in 2017 for the Education Non-Wage Recurrent Conditional Grant including a set of variable and weightings and this formula is stated in the POM and the Annual Budget Estimates for or equivalent for FY1.</p> <p>(b) The data for all variables on which are used in computation of formula shares for FY1 <i>and</i> the list of education cost centers will be verified in writing by the institution responsible for producing that data and this data will be publicly available online on OTIMS or equivalent.</p> <p>(c) The sum of Education Non-Wage Recurrent Conditional Grant allocations to all LGs in the approved (or revised) budget for FY1 are at least as high as those in the grant uplift and formula phase in plan.</p> <p>(d) The approved (or revised) LG budget allocations to the Education Non-Wage Recurrent Conditional Grant for FY1 are calculated using the approved formula and mathematical principles set out in the POM.</p> <p>(e) Grant allocations for FY1 are publicly available online OTIMS or equivalent.</p> <p>(f) From 2020/21 onwards (Year 4) performance incentives will be introduced as specified in the POM.</p> <p>If (a) to (f) are not achieved during FY0 then they can be achieved in FY1. In FY1 (c) and (d) are</p>	No	<p>Approved formula in POM</p> <p>Communication showing approved formula and phase in plan signed by PS MoES.</p> <p>MoFPED GoU Approved Budget for transfers for FY1.</p> <p>Official statistics signed off by data producers</p> <p>Maths underlying formulae and phase in (consistent with OTIMS) in POM</p>	LGFC	<p><b>Year 1 to 5</b></p> <p>At the time of the first budget call and draft budget MoFPED checks that a. to e. are true and documentary evidence in place using the guidance in the POM, and ensure that the approved budget remains consistent.</p> <p>After the close of the financial year MoFPED report on (a) - (e) as specified in the POM and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p> <p><b>Year 4 &amp; 5</b></p> <p>LGFC verifies (f) is true using the process set out in the POM.</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	achieved through a supplementary budget during FY1.				
	<p><i>Budgeted transfers for FY0 released in full and releases publicly available online</i></p> <p>(g) Grant releases for FY0 are publicly available on OTIMs or equivalent Grant disbursements</p> <p>(h) Annual education non-wage recurrent conditional grant releases to every individual local government for FY0 are at least 97% of the approved budget for that LG.</p> <p>If (g) and (h) are not achieved during FY0 then they can be achieved for FY0 in FY1. In FY1 (h) is achieved through <i>both</i> a supplementary budget during FY1 of the equivalent of the value of any shortfall in releases to each LGs below 97% in FY0 <i>and</i> DLI 1.2 (h) being achieved in FY1 for the revised budget.</p>		<p>GoU Approved Budget for transfers for FY0.</p> <p>GoU Release Data for FY0</p>	LGFC	<p><b>Year 1 to 5</b></p> <p>MoFPED will ensure and check that all release data is up to data and provide evidence that release data for FY0 is available online (g).</p> <p><b>Year 2 to 5</b></p> <p>In preparing fourth quarter cash limits for FY0, MoFPED will ensure full releases can be accommodated. After the fourth quarter cash limits of FY0 are issued MoFPED will check whether h has been met by reviewing LG warrants submitted. If there are issues, then MoFPED will take action.</p> <p>After the close of the financial year MoFPED report on (h) as specified in the POM and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>
<p><b>DLI 1.3: Enhanced, equitable formula for development grants in education implemented as planned</b></p>	<p><i>FY1 budget allocations are in line with formula and phase in plan and FY0 budget disbursements are made in full to LGs which meet minimum requirements. Both are available online.</i></p> <p>(a) A formula approved by the MoES is in place in 2017 for the Education Development Conditional Grant including a set of variable and weightings and this formula is stated in the Annual Budget Estimates for or equivalent for FY1.</p> <p>(b) The data for all variables on which are used in computation of formula shares for FY1, including performance assessments results, will be verified in writing by the institution responsible for producing that data and this</p>	No	<p>Communication showing approved formula signed by PS MoES.</p> <p>GoU Approved Budget for transfers for FY1.</p> <p>GoU Release date for FY0</p> <p>Official statistics signed</p>	LGFC	<p><b>Year 1-5</b></p> <p>At the time of the draft budget MoFPED checks that a. to e. are true and verified using a template specified in the POM.</p> <p>After the close of the financial year MoFPED will compile information on b. to f and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>



DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	<p>data will be publicly available online on OTIMS or equivalent.</p> <p>(c) The sum of Education Sector Development Grant allocations to all LGs in the approved (or revised) budget for FY1 are at least as high as those in the grant uplift plan.</p> <p>(d) The approved (or revised) LG budget allocations to the Education Sector Development Grant for FY1 are calculated using the approved formula and mathematical principles set out in the POM, which includes the results of the annual performance assessment linked to at least 50% of grant allocations.</p> <p>(e) Grant allocations for FY1 will be publicly available on OTIMS or equivalent.</p> <p>If (a) to (e) are not achieved during FY0 then they can be achieved in FY1. In FY1 (c) and (d) is achieved through a supplementary budget during FY1.</p>		<p>off by data producers</p> <p>Maths</p> <p>underlying formulae and phase in (consistent with OTIMS)</p>		
	<p><i>Budgeted transfers for FY0 released in full and releases publicly available online</i></p> <p>(f) Grant releases for FY0 are publicly available on OTIMS or equivalent Grant disbursements</p> <p>(g) FY0 annual releases to the development grant are at least 97% of the annual budget for that grant for all LGs which met accountability requirements by the end of December of FY0, based information from the annual performance assessment for FY-1 and updates from MoFPED.</p> <p>If (f) and (g) are not achieved during FY0 then they can be achieved for FY0 in FY1. In FY1 (g) is achieved through <i>both</i> a supplementary budget during FY1 of the equivalent of the value of any</p>		<p>Assessment results and MoFPED register of requirements met</p> <p>GoU Approved Budget for transfers for FY0.</p> <p>GoU Release Data for FY0</p>	<p>LGFC</p>	<p><b>Year 1 to 5</b></p> <p>MoFPED will ensure and check that all release data is up to date and provide evidence that release data for FY0 is available online (f).</p> <p><b>Year 2 to 5</b></p> <p>In preparing fourth quarter cash limits for FY0, MoFPED will ensure full releases can be accommodated. After the fourth quarter cash limits of FY0 are issued MoFPED will check whether g has been met by reviewing LG warrants submitted for all LGs that have met accountability requirements by December of FY0. If</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	shortfall in releases to each LGs below 97% in FY0 and DLI 1.2 (g) being achieved in FY1 for the revised budget.				there are issues, then MoFPED will take action. After the close of the financial year MoFPED report on g as specified in the POM and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.
<b>DLI 1.4: The quality of fiscal management of education resources by LGs is maintained</b>	<i>The average score on the assessment of health resources management in the annual performance assessment and the average score of the 20 worst LGs are both higher than in FY-1.</i> (a) The average score of the Annual Performance Assessment for all local governments in FY-1 is greater than the average score for the Assessment in FY-2 (b) The average score of the worst performing 20 local governments in the Annual Performance Assessment for FY-1 as a share of the average for all local governments is greater than in the Assessment for FY-2	No	OPM, and the LG Assessment Task Force Annual Performance Assessment Reports OPAMS or equivalent website	FD-TC on the advice of an independent firm provides quality assurance of sample of results commissioned by OPM.	<b>Year 1</b> OPM reviews the APA report and advises the LPA-TF whether the a. has been met, using the format in the POM. The LGPA - TF then advises the FD-TC on whether the DLI has been met. <b>Year 1 to Year 5</b> OPM reviews the APA report and advises the LPA-TF whether the a. and b. has been met, using the format in the POM. The LGPA task force then advises the FD-TC on whether the DLI has been met.
	<i>Guidelines at the LG and school level updated, addressing fiduciary, environmental and social risks and grievance redress.</i> Relevant LG and School level guidelines and manuals are updated as specified in the POM: (a) to reflect new and existing policies and systems; (b) to address technical, fiduciary, social and environmental risks as specified in the POM.	No	LG and School Level Guidelines	LGFC	<b>Year 1</b> MoEST Compiles revised guidelines and submits to the FD-TC. LGFC verifies whether the Manuals address the issues set out in the POM.
<b>Results Area 2: Enhancing Adequacy and Equity of Fiscal Transfers and Fiscal Management of Resources for Health Services</b>					
<b>DLI 2.1: Annual increase in budget</b>	<i>MT plan for increasing budget allocations to the transfers reflected in the MTEF with FYI allocations at least a target percentage higher than in FY0.</i>	No	MoFPED Medium Term Plan for	LGFC	<b>Year 1</b> MoFPED reviews the draft budget estimates and OTIMS before submission to parliament, checks whether a, b and c

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
<p><b>allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for health services</b></p>	<p>(a) A medium term plan for increasing budget allocations to the transfers and phasing in the formulae which states the annual allocations for sector conditional grants from 2018/19 to 2022/23 is approved by MoFPED and MoH and is in the POM.</p> <p>(b) For the respective Financial Years in the plan allocations to sector grants in the MTEF are greater than or equal to the <i>sum of both</i> allocations to sectoral conditional grants (wage, non-wage recurrent, development) in the plan <i>and</i> any allocations to support services and transitional development grants for the sector.</p> <p>(c) Aggregate medium term allocations for grants consistent with these allocations also available on OTIMS or available online in another form.</p> <p>(d) The percentage increase in total allocations for sector wage, non-wage recurrent and development grants (excluding support services and transitional development grants) between the approved budget for FY1 and FY0 year must be at least the percentage specified in the DLI.</p> <p>If (a) to (d) are not achieved during FY0 then they can be achieved in FY1. In FY1 (d) is achieved through a supplementary budget during FY1.</p>		<p>Increasing budget allocations to the transfers and communication showing approved by PS MoH and PS/ST</p> <p>GoU Approved Budget</p> <p>Approved Budget MTEF</p>		<p>are true and correct and makes any adjustments necessary. MoFPED also monitors any subsequent budget adjustments.</p> <p>After the approval of the budget in June, MoFPED reviews the draft budget estimates and OTIMs, checks whether a, b and c are true and provides documentary evidence (excerpts from budget docs, web link and screenshots).</p> <p>It then submits a report to the FD-TC providing evidence that the DLI has been met. LGFC reviews report and advises FD-TC on whether DLI is met.</p> <p><b>Year 2-4</b></p> <p>In addition to repeating the tasks carried out task 2, MoFPED also checks whether d is correct, initially at the time of the draft budget.</p> <p>Following the approval of the budget, MoFPED produces a report and submits it to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>
<p><b>DLI 2.2: Enhanced, equitable formula for operational grants in health</b></p>	<p><i>Budget allocations consistent with agreed formula phase in plan and publicly available online.</i></p> <p>(a) A formula approved by the MoH is in place in 2017 for the Health Non-Wage Recurrent Conditional Grant including a set of variable and weightings and this formula is stated in</p>	<p>No</p>	<p>Communication showing approved formula and phase in plan signed by PS MoES.</p>	<p>LGFC</p>	<p><b>Year 1 to 5</b></p> <p>At the time of the first budget call and draft budget MoFPED checks that a. to e. are true and documentary evidence in place using the guidance in the POM, and ensure that the approved budget remains consistent.</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
<p><b>phased in as planned</b></p>	<p>the POM and the Annual Budget Estimates for or equivalent for FY1.</p> <p>(b) The data for all variables on which are used in computation of formula shares for FY1 <i>and</i> the list of education cost centers will be verified in writing by the institution responsible for producing that data and this data will be publicly available online on OTIMS or equivalent.</p> <p>(c) The sum of Health Non-Wage Recurrent Conditional Grant allocations to all LGs in the approved (or revised) budget for FY1 are at least as high as those in the grant uplift and formula phase in plan.</p> <p>(d) The approved (or revised) LG budget allocations to the Health Non-Wage Recurrent Conditional Grant for FY1 are calculated using the approved formula and mathematical principles set out in the POM, which includes the results of the annual performance assessment linked to at least 50% of grant allocations.</p> <p>(e) Grant allocations for FY1 are publicly available online OTIMS or equivalent</p> <p>(f) From 2020/21 onwards (Year 4) performance incentives will be introduced as specified in the POM.</p> <p>If (a) to (f) are not achieved during FY0 then they can be achieved in FY1. In FY1 (c) and (d) are achieved through a supplementary budget during FY1.</p>		<p>MoFPED</p> <p>GoU Approved Budget for transfers for FY1.</p> <p>GoU Release Data for FY0</p> <p>Official statistics signed off by data producers</p> <p>Maths underlying formulae and phase in (consistent with OTIMS)</p>		<p>After the close of the financial year MoFPED report on a to e as specified in the POM and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p> <p><b>Year 4 &amp; 5</b></p> <p>MoFPED verifies (f) is true using the process set out in the POM.</p>
	<p><i>Budgeted transfers for FY0 released in full and releases publicly available online</i></p>	<p>No</p>	<p>GoU Approved Budget for transfers for FY0.</p>	<p>LGFC</p>	<p><b>Year 1 to 5</b></p> <p>MoFPED will ensure and check that all release data is up to date and provide</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	<p>(g) Grant releases for FY0 are publicly available on OTIMS or equivalent Grant disbursements</p> <p>(h) Annual health non-wage recurrent conditional grant releases to every individual local government for FY0 are at least 97% of the approved budget for that LG.</p> <p>If (g) and (h) are not achieved during FY0 then they can be achieved for FY0 in FY1. In FY1 (h) is achieved through <i>both</i> a supplementary budget during FY1 of the equivalent of the value of any shortfall in releases to each LGs below 97% in FY0 <i>and</i> DLI 1.2 (h) being achieved in FY1 for the revised budget.</p>		GoU Release Data for FY0		<p>evidence that release data for FY0 is available online (f).</p> <p><b>Year 2 to 5</b></p> <p>In preparing fourth quarter cash limits for FY0, MoFPED will ensure full releases can be accommodated. After the fourth quarter cash limits of FY0 are issued MoFPED will check whether (h) has been met by reviewing LG warrants submitted. If there are issues, then MoFPED will take action.</p> <p>After the close of the financial year MoFPED report on (h) as specified in the POM and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>
<p><b>DLI 2.3: Enhanced, equitable formula for development grants in health implemented as planned</b></p>	<p><i>FY1 budget allocations are in line with formula and phase in plan and FY0 budget disbursements are made in full to LGs which meet minimum requirements. Both are available online.</i></p> <p>(a) A formula approved by the MoH is in place in 2017 for the Health Development Conditional Grant including a set of variable and weightings and this formula is stated in the Annual Budget Estimates for or equivalent for FY1.</p> <p>(b) The data for all variables on which are used in computation of formula shares for FY1, including performance assessments results, will be verified in writing by the institution responsible for producing that data and this data will be publicly available online on OTIMS or equivalent.</p> <p>(c) The sum of Health Sector Development Grant allocations to all LGs in the approved</p>	No	<p>Communication showing approved formula signed by PS MoES.</p> <p>GoU Approved Budget for transfers for FY1.</p> <p>GoU Release date for FY0</p> <p>Official statistics signed off by data producers</p> <p>Maths underlying formulae and phase in</p>	LGFC	<p><b>Year 1-5</b></p> <p>At the time of the draft budget MoFPED checks that a. to e. are true and verified using a template specified in the POM.</p> <p>After the close of the financial year MoFPED will compile information on b. to f and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	<p>(or revised) budget for FY1 are at least as high as those in the grant uplift plan.</p> <p>(d) The approved (or revised) LG budget allocations to the Health Sector Development Grant for FY1 are calculated using the approved formula and mathematical principles set out in the POM.</p> <p>(e) Grant allocations for FY1 will be publicly available on OTIMs or equivalent.</p> <p>If (a) to (d) are not achieved during FY0 then they can be achieved in FY1. In FY1 (c) and (d) are achieved through a supplementary budget during FY1.</p>		(consistent with OTIMs)		
	<p><i>Budgeted transfers for FY0 released in full and releases publicly available online</i></p> <p>(f) Grant releases for FY0 are publicly available on OTIMs or equivalent Grant disbursements</p> <p>(g) FY0 annual releases to the development grant are at least 97% of the annual budget for that grant for all LGs which met accountability requirements by the end of December of FY0, based information from the annual performance assessment for FY-1 and updates from MoFPED.</p> <p>If (f) and (g) are not achieved during FY0 then they can be achieved for FY0 in FY1. In FY1 (g) is achieved through <i>both</i> a supplementary budget during FY1 of the equivalent of the value of any shortfall in releases to each LGs below 97% in FY0 <i>and</i> DLI 1.2 (g) being achieved in FY1 for the revised budget.</p>	No	<p>Assessment results and MoFPED register of requirements met</p> <p>GoU Approved Budget for transfers for FY0.</p> <p>GoU Release Data for FY0</p>	LGFC	<p><b>Year 1 to 5</b></p> <p>MoFPED will ensure and check that all release data is up to date and provide evidence that release data for FY0 is available online (f).</p> <p><b>Year 2 to 5</b></p> <p>In preparing fourth quarter cash limits for FY0, MoFPED will ensure full releases can be accommodated. After the fourth quarter cash limits of FY0 are issued MoFPED will check whether (g) has been met by reviewing LG warrants submitted for all LGs that have met accountability requirements by December of FY0. If there are issues, then MoFPED will take action.</p> <p>After the close of the financial year MoFPED report on g as specified in the POM and submit a report to FD-TC. LGFC reviews report and advises FD-TC on whether DLI is met.</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
<b>DLI 2.4: The quality of fiscal management of health resources by LGs is maintained</b>	<p><i>The average score on the assessment of health resources management in the annual performance assessment and the average score of the 20 worst LGs are both higher than in FY-1.</i></p> <p>(a) The average score of the Annual Performance Assessment for all local governments in FY-1 is greater than the average score for the Assessment in FY-2</p> <p>(b) The average score of the worst performing 20 local governments in the Annual Performance Assessment for FY-1 as a share of the average for all local governments is greater than in the Assessment for FY-2</p>	No	OPM, and the LG Assessment Task Force Annual Performance Assessment Reports OPAMS or equivalent website	FD-TC on the advice of an independent firm provides quality assurance of sample of results commissioned by OPM.	<p><b>Year 1</b></p> <p>OPM reviews the APA report and advises the LPA-TF whether the a. has been met, using the format in the POM. The LGPA - TF then advises the FD-TC on whether the DLI has been met.</p> <p><b>Year 1 to Year 5</b></p> <p>OPM reviews the APA report and advises the LPA-TF whether the a. and b. has been met, using the format in the POM. The LGPA task force then advises the FD-TC on whether the DLI has been met.</p>
	<p><i>Guidelines at the LG and health facility level updated, addressing fiduciary, environmental and social risks and grievance redress.</i></p> <p>Relevant LG and Health Facility level guidelines and manuals are updated as specified in the POM:</p> <p>(c) to reflect new and existing policies and systems;</p> <p>(d) to address technical, fiduciary, social and environmental risks as specified in the POM.</p>	No	LG and Health Facility Level Guidelines	LGFC	<p><b>Year 1</b></p> <p>MoH Compiles revised guidelines and submits to the FD-TC.</p> <p>LGFC Reviews whether the Manuals address the issues set out in the POM.</p>

DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
<b>Results Area 3: Improvement in Fiscal Management of Education and Health Services</b>					
<b>DLI 3: LG performance assessments, value for money audits, and fiscal management improvement planning take place</b>	<p><i>Annual performance assessment of FY-1 is conducted, validated and publically disseminated.</i></p> <p>(a) A local government performance assessment manual, which forms part of the POM, has been approved and disseminated.</p> <p>(b) An annual assessment of local government performance has taken place which applies the relevant version of the performance assessment manual.</p> <p>(c) The results of the assessment are made publicly available online on OPAMS or equivalent, and this includes the overall assessment results, and the detailed assessment criteria and supporting evidence.</p>	No	OPM, and the LG Assessment Task Force Annual performance assessment manual Annual performance assessment results OPAMS or equivalent website	FD-TC on the advice of an independent firm provides quality assurance of sample of results, produced by a independent firm commissioned by OPM.	<p><b>Year 1-5</b></p> <p>OPM hires an independent firm to conduct the APA. The firm will follow the procedure provided in the assessment annual (as updated) which is an appendix to the POM. OPM will hire a second QA independent firm to provide quality assurance on a sample basis.</p> <p>OPM, as chair of the assessment Task Force submits the final assessment report to the FD-TC including the complete results of the APA.</p>
	<p><i>Assessment manual for assessment of FY 2018/19 onwards updated and disseminated to take into account updated procedures in grant manuals and agreed additional performance parameters.</i></p> <p>(d) Assessment criteria in the annual performance assessment manual are updated, where necessary, based on adjusted procedures and manuals for the assessment manual to be used in the assessment to be carried out starting August 2019 and the new framework for performance incentives for non-wage recurrent conditional grants.</p>	No	LG manuals and guidelines LG Performance Assessment Manual	LGFC	<p><b>Year 1</b></p> <p>In addition to the standard annual procedures above the Education, Health and LG Support Task forces will submit updated manuals to the FD-TC.</p> <p><b>Year 3</b></p> <p>In addition to the standard annual procedures above the LG Assessment task force will update the assessment manual in line with adjusted procedures and guidelines, as appropriate.</p>
	<p><i>Performance Improvement Plans prepared for and agreed with a specified number of local governments and in a specified number of thematic areas of underperformance.</i></p> <p>(a) A Specified Number of Local Performance Improvement Plans for FY1 using the format in the POM in place and agreed between the</p>	No	MoLG and the LGPI task force L-PIPs for FY0 T-PIPs for FY0	LGFC	<p><b>Year 1</b></p> <p>MoLG compiles the L-PIPs and T-PIPs as documentary evidence and ascertains whether a. and b. have been achieved and advises the LGPA-TF. The LGPI-TF then reports to the FD SC.</p>



DLI	Definition of Achievement (in FY0)	Scalability of Disbursements	Data Source/ Agency	Verification Entity	Procedure
	<p>relevant central government ministries and approved by the LGPI Task Force,</p> <p>(b) At least a target number of Thematic Performance Improvement Plans using the format in the POM for FY0 in place and approved by the LGPI Task Force.</p> <p>(c) An evaluation report for Performance Improvement Plans for FY-1 prepared and approved by the LGPI task force and published on OPAMS</p>		<p>Evaluation Report for FY-1</p> <p>Minutes of TF meetings</p>		<p><b>Year 2-Year 5</b></p> <p>MoLG compiles the L-PIPs and T-PIPs as documentary evidence and ascertains whether a., b. and c have been achieved and advises the LGPA-TF. The LGPI-TF then reports to the FD SC.</p>
	<p>A VfM audit is conducted of local government expenditures in health and education in a sample of local governments as specified in the POM.</p>	<p>No</p>	<p>OAG Audit Report</p>	<p>LGFC</p>	<p><b>Year 1 and 5</b></p> <p>OAG submits to FD-TC the report by the end of December. LGFC assesses whether report is to standard and advises the TC</p>

*Notes:* FY0 = Financial Year DLR fall under (column heading in DLI Matrix). FY1 = Financial Year after FY0; if new higher local governments are created as part of the operation, then DLIs measuring equity will be calculated on the basis of the original LGs by adding the allocations of the split local governments back together. POM will provide reporting formats for purposes of DLI verification.

**World Bank Disbursement Table (US\$, millions)**

#	DLI	World Bank financing allocated to the DLI	Of which Financing available for Prior results	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of World Bank Financing	Maximum DLI value(s) expected to be achieved for World Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s) 4
1	<b>DLI 1.1: Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for education services</b>	US\$20 million	US\$5 million	August 15 <sup>th</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement
2	<b>DLI 1.2: Enhanced, equitable formula for operational grants in education phased in as planned</b>	US\$70 million	US\$14 million	August 15 <sup>th</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement
3	<b>DLI 1.3: Enhanced, equitable formula for development grants in education implemented as planned</b>	US\$30million	US\$6 million	August 15 <sup>th</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement
4	<b>DLI 1.4: The quality of fiscal management of education resources by LGs is maintained</b>	US\$10 million	US\$2 million	March 31 <sup>st</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement
5	<b>DLI 2.1: Annual increase in budget allocation to sector conditional grants (wage, non-wage recurrent, and development) to LGs for health services</b>	US\$10 million	US\$2 million	August 15 <sup>th</sup> Annually	Annual DLR fully met	ANNUAL DLR fully met	Full amount of annual disbursement
6	<b>DLI 2.2: Enhanced, equitable formula for</b>	US\$20 million	US\$4 million	August 15 <sup>th</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement

	<b>operational grants in health phased in as planned</b>						
7	<b>DLI 2.3: Enhanced, equitable formula for development grants in health implemented as planned</b>	US\$15 million	US\$3 million	August 15 <sup>th</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement
8	<b>DLI 2.4: The quality of fiscal management of health resources by LGs is maintained</b>	US\$10 million	US\$2 million	March 31 <sup>st</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement
9	<b>DLI 3: Assessment and Targeted Performance Improvement of the Fiscal Management by LGs</b>	US\$15 million	US\$5 million	March 31 <sup>st</sup> Annually	Annual DLR fully met	Annual DLR fully met	Full amount of annual disbursement

## Annex 4: Summary Technical Assessment

### I. Strategic Relevance

#### Program Specific Relevance to National Priorities

- 1. The GoU FDS covers intergovernmental fiscal transfers which account for 3.4 percent of GDP and, along with NDP II, provides the policy framework for the GoU reform program and its current effort to streamline fiscal transfer modalities.** The FDS was adopted in 2002 “to strengthen the process of decentralization in Uganda through increasing local governments’ autonomy, widening local participation in decision-making and streamlining fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments.” The FDS focuses on reforms of fiscal transfers from the central government to Uganda’s local governments (LGs). Two substantial pieces of technical assistance work<sup>13</sup> published in 2015 and 2016 support the goal of the FDS, in particular, improvements in the efficiency and effectiveness of the fiscal transfers system to promote the effectiveness of LGs.
- 2. The Program has high strategic relevance because it will address the binding constraint of low levels of funding for social services.** Funding levels for social services in most LGs are too low to achieve improvements in outcomes. This binding constraint has been identified by the Systematic Country Diagnostic, prioritized in the Country Partnership Framework (CPF) – 2016-2021, and highlighted in the 2009 World Development Report (WDR) on the Geography of Economic Development. Specifically, the Program addresses three constraints that have a major adverse impact on service delivery in a large number of districts: (i) the large-scale horizontal inequities in the per capita amounts of transfers received by the districts; (ii) the inadequate level of per capita social expenditures in poorer districts; and (iii) the lack of transparency in design of the transfers, including allocation formulae, reporting, and accountability mechanisms as well as a lack of efficiency in their implementation.
- 3. The Program will support two CPF objectives: “Enhancing Economic Governance and Fiscal Management” and “Improving Social Service Delivery.”** Reduction in horizontal inequities in per beneficiary spending on social services across districts will directly contribute to achieving the CPF objectives. The Program’s focus on improving the financing of service delivery, enhancing VfM, and reducing inequities in public spending on social services will help to achieve the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. The Program’s focus on support to implementation of the reform will contribute to closing “implementation gap”, an issue identified in the CPF as one of the main challenges faced by the country.

#### The Strategic Importance of the Issues the Program Will Address

- 4. There is significant inequality between regions, and between rural and urban areas in Uganda, which are major constraints to long-term economic development.** The sustained conflict in the North held the region back by several years, resulting in slower increases in incomes

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<sup>13</sup> Republic of Uganda: Consolidation of Intergovernmental Fiscal Transfers in Uganda - Advisory Services Document, May 2015, and Republic of Uganda: Reform of Intergovernmental Fiscal Transfers in Uganda - Advisory Services Document, June 2016.

and high poverty levels. In 2006, approximately 60 percent of the poor lived in the northern and eastern parts of the country. Seven years later, this proportion increased to 84 percent. The differences in welfare between rural and urban areas are similarly pronounced in income as well as non-income dimensions. In 2015, public spending per capita on health and per child in education differed by a factor of more than 10 across districts. This leads to a major disparity in the level of services, for example, the share of babies delivered in public health facilities varies from 4 to 94 percent, and the number of students per primary school teacher varies from as low as 32 to as many as 100 across districts. About one third of positions in local governments are currently vacant, and the share of vacancies varies a lot across districts, also affecting equality of outcomes.

5. **As part of improved targeting, the CPF emphasizes that equity in spending and quality of connective infrastructure and social services needs to improve, especially in underserved rural areas and in the North and East.** Access to savings instruments and microfinance, improvements in quality and efficiency of public services, and well-targeted, fiscally sustainable safety nets can help the poor and vulnerable to diversify their assets and counter vulnerability. The Program will promote improving the targeting of these interventions will lead to broader, longer-term objectives such as lower fertility.

6. **The Program will contribute to a “demographic dividend.”** Uganda has a high fertility rate and one of the youngest populations in the world, hence high number of dependents per worker. Uganda’s population density is increasing, but with a low rate of urbanization. Uganda’s population density is already higher than that of Western Europe and China, and it is growing rapidly. Because Uganda is landlocked, it is disadvantaged in generating a manufacturing sector that would support urban populations. In order to change its population age structure faster and minimize the risks related to rising population density, Uganda needs to accelerate the shift from high to low levels of mortality and fertility. The resulting changes in the age structure of population may bring about a “demographic dividend” that can be captured to produce a virtuous cycle of economic growth and poverty reduction. The Program will help achieve this demographic dividend by, among other things, empowering girls and women through increased investment in their education and skills and health, by ensuring equitable allocation in underfunded LGs. This would particularly benefit poor households which, on average, have higher fertility. Demographic transition and accelerated urbanization usually work in synergy.

7. **The weak access to public services by poor households living in rural areas is, in large part, because of deficiencies in the intergovernmental transfer system.** This problem has been exacerbated by the rapid increase in the number of districts over the last two decades (now numbering 133). Although the provision of social services is largely decentralized in Uganda, financing is heavily centralized because, as stated earlier, LGs have a limited ability to generate their own revenues. Despite this mode of financing, horizontal inequities remain large.

8. **Bringing every district up to the outcome-to-spending ratio of the districts that perform well in both health and education sectors could save about 0.8 percent of GDP per annum.** Such potential financial gains, on their own, justify financial involvement of the World Bank. Beyond that, the predictable and steady change in path-dependent budget allocations to LGs in order to reduce horizontal inequities, combined with a sustained strengthening of incentives of the LGs to enhance VfM, are critical for maximizing the actual gains. The PforR financing is also

better positioned for such purposes than either a DPO or an IPF, and is therefore more appropriate to for this operation.

## **II. Technical Soundness**

**9. Each component of the proposed Program is assessed as appropriate for PforR financing.**

**10. The technical soundness of the Program is built on proven development concepts as laid out in the WDR 2009 and on specific diagnoses of Uganda as presented in a body of World Bank analytical work:**

- Public Expenditure Review (PER) 2013— “Service Delivery with More Districts in Uganda: Fiscal Challenges and Opportunities for Reforms” developed a set of institutional and fiscal policy recommendations for the reforms of fiscal decentralization framework.
- Uganda Programmatic Public Expenditure Review-June 2016
- Consolidation of Intergovernmental Fiscal Transfers in Uganda - Advisory Services Document, May 2015
- Reform of Intergovernmental Fiscal Transfers in Uganda - Advisory Services Document, June 2016

**11. And in two strategy documents:**

- Country Partnership Framework (CPF) 2016-2021
- Fiscal Decentralization in Uganda, Strategy Paper, March 2002

**12. This analytic work underscores the urgency in remedying the extremely low funding levels of social services for poor districts.** With per capita funding for health and education as low as US\$1–3 annually in some poor districts, it is impossible to achieve positive outcomes. In terms of sequencing interventions, therefore, the increase in funding supported by the Program is the first issue to be addressed before any improvement can be expected in health and education outcomes.

**13. Stakeholders will have strong incentives under the Program to ensure that the improved allocation of fiscal transfers promoted by the Program succeeds.** The formulae for conditional grants will include performance-based components. Criteria include basic performance measures such as construction or renovation of school and health facilities (criteria to be updated in December). The central government is responsible for carrying out performance assessments and this task forms a DLI for the Program.

## International Experience Underpinning Technical Soundness

14. **An important caveat from the analytical work is that intergovernmental fiscal transfers differ greatly from country to country, therefore, lessons from international experience need to be interpreted with caution.** In particular, there will be differences in the political autonomy and revenue raising capacity of local governments. A recurring theme in international examples from Tanzania to Sweden is the difficulty of managing incentives in the grant system. Another is the need to maintain a simple formula that is linked to the objectives of the grant. The development of the allocation formula incorporates considerations that are expected to meet Program adequacy and equity objectives.

15. **In practice, countries all over the world have found it difficult to define and equalize the revenue capacity and expenditure needs of local governments** (Kim & Lotz 2007)<sup>14</sup>. Shah (in Kim & Lotz 2007:59) suggests that “Fiscal need compensation can be more simply and objectively achieved on a service by service basis for major local merit services such as education, health, infrastructure, and so on. Such grants can use simple and objective service-based indicators such as school age population for school finance, weighted population with greater weights for infants/children and senior citizens for health finance, and so on.” In Uganda, data constraints mean that using relatively simple proxies of overall need, such as differences in number of potential users (population, children, and so on) and poverty rates, may be most realistic.

16. Other relevant considerations for pursuing more equitable formulae include:

- **Estimating cost differences between local governments is not straightforward:** costs of service provision can differ between local governments and may need to be reflected in the allocation formulae. Many countries add resources for small, or sparsely populated regions where services are expected to cost more (Kim & Lotz 2007).
- **Complexity in the allocation formula is not necessary:** the experiences from many countries have shown that 7-10 criteria can explain most of the variations in expenditure needs (Steffensen 2010)<sup>15</sup>.
- **Negative incentives for local government behavior are widespread:** All systems will be subject to ‘gaming’ where local governments try to maximize the returns from the system, while minimizing effort (Hood 2006)<sup>16</sup>. Common pitfalls in equalization include incentives to collect less local revenues, maintain inefficient practices, increase spending unsustainably, or allocations through ad hoc political decisions as part of the budget process (for example, Argentina). Neither of these alternatives fits the context in Uganda where local governments are financed predominantly by grants using agreed allocation formulae (much like in South Africa).

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<sup>14</sup> Kim, J. and Lotz, J. eds. 2007. Measuring local government expenditure needs: The Copenhagen Workshop 2007. Copenhagen: Ministry of Social Welfare.

<sup>15</sup> Steffensen, J. 2010. Performance-Based Grant Systems – Concept and International Experiences. UNCDF.

<sup>16</sup> Hood, C. 2006. Gaming in target world: the targets approach to managing British public services. Public Administration Review, 66(4), pp. 515-521.

- **Not all inequities can be addressed through the grant system.** For example, inequities may result from local policy decisions. In Uganda, some LGs are less efficient providers of health and education services than others regardless of the financial resources they receive (World Bank 2013). Attempting to address all of these issues will either overcomplicate the equalization process or undermine it by promoting poor incentives (some could be addressed through performance-based components of the grants).

17. **One particularly poor practice is to use the availability of infrastructure as criteria for equalization.** In general, countries have had negative experiences using the availability of infrastructure as a direct criterion for allocation (Steffensen 2010). Firstly, capital expenditure needs are difficult to conceptualize and measure, but also vary widely between local governments areas. For this reason, capital expenditure needs are not included in Australia (Schroeder & Smoke 2002). Secondly, allocations based on existing infrastructure (or infrastructure gaps) create potentially damaging incentives or preserve existing inequities. For instance, if “a higher concentration of schools, classrooms or water facilities causes a reduction in the grants, the [district] will have no incentive to improve service provision as they will be ‘punished’ by a reduction in their grant allocation in the subsequent years” (Steffensen 2010). There is also the risk that capital and recurrent grants are not well coordinated, meaning that infrastructure is not maintained (Boadway & Shah 2007)<sup>17</sup>.

18. **In conclusion, it is better to develop variables based on defined cost drivers, outputs, outcomes or other ‘exogenous’ measures linked to the target population of the service.** To cater for higher levels of need in some regions because they are underdeveloped, the sector indicators could be combined with proxies for poverty, like income and consumption statistics. The formulae used to allocate resources should be simple to understand and should produce consistent allocations between recurrent and development grants, being careful to avoid large development transfers without funding to maintain new infrastructure. The goal of promoting greater equity should not create incentives that negatively affect performance, like over-staffing schools.

19. **Performance-based grants have been used to provide incentives for improved LG management, governance and PFM processes.** Performance-based grants have been promoted by development partners (including the World Bank) in many countries, including the successful case of Uganda’s LGDP in the late 1990s. With performance-based grants, access to additional financing is conditional meeting a set of performance criteria. Criteria typically relate to participatory planning, budgeting, financial management, procurement, budget execution, revenue mobilization, audit performance and service delivery. In the case of service delivery, performance is measured not through meeting specific outputs targets, but rather measures such as implementation ratio, progress on linking investments with maintenance, monitoring, and so on). In this way, performance-based grants focus on the drivers of change for effective planning and utilization of funds and institutional strengthening.

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<sup>17</sup> Boadway, R. and Shah, A. eds 2007. Intergovernmental fiscal transfers: principles and practice. Washington D.C.: World Bank.



20. **Selecting and monitoring the right criteria is essential for results-based and performance-based financing.** The weighting and number of criteria used for these schemes range widely between countries. Getting the wrong indicators potentially diverts resources from other services – for example, a focus on malaria could divert resources away from neonatal care. It may also result in inequitable allocations or perverse incentives. This points to the need for strong monitoring systems and will require the involvement of a wide group of stakeholders. It also suggests that attempts to roll out results-based financing should be piloted and refined before being scaled up to all local governments in a given sector. The experiences also point to the importance of having a strong and neutral system in place for performance assessments, verification of results and effective decision-making.

### **World Bank Experience in Fiscal Decentralization**

21. **The Program exploits the World Bank’s comparative advantage in supporting fiscal decentralization.** The World Bank has been closely involved in a fiscal decentralization policy dialogue with the GoU, and has assisted the Government in its efforts to build the momentum for reforms. The FY13 Public Expenditure Review “Service Delivery with More Districts in Uganda: Fiscal Challenges and Opportunities for Reforms” developed a set of institutional and fiscal policy recommendations for the reforms of fiscal decentralization framework.

22. **The World Bank has also supported design and adoption of the first stage of the reform with technical assistance and development policy financing.** In March 2015–June 2016, the World Bank provided technical assistance to the Government in development of the new consolidated framework for the grants, development of formulae, grant conditions, budgeting and reporting guidelines for the new framework. The *First Fiscal Decentralization, Governance, and Service Delivery Development Policy Operation* was prepared to support implementation of the first stage of the fiscal transfers’ reform. Although its approval has been delayed, the associated prior actions have been implemented. A second operation was planned for the following year.<sup>18</sup>

23. **The World Bank, jointly with DFID, has been also supporting the reforms of the system at the critical second stage to help address the inefficiencies of intergovernmental transfers.** The fiscal transfer system has been redesigned, but the new formulae for the transfers have not yet been fully executed and only limited additional resources have been allocated to the local governments to support their execution. Budget requirements have been established, but they need to be enforced. The process needs to be managed effectively for the reforms to deliver change. In terms of securing the reform gains thus far, and to ensure they are implemented as intended it is important that transfers are well-managed and the reforms are effectively coordinated which includes:

- Establishing performance incentives linked to the transfer mechanism: support the design of a performance framework for transfers, which will leverage improved institutional and service delivery performance and the management of the performance assessment processes as they are piloted and rolled out.

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<sup>18</sup> A concern arising in another project triggered an Inspection Panel review that temporarily halted processing of this operation and provision of budget support.

- Securing agreement for medium term plan for rolling out formulae, including wage and non-wage recurrent allocations, and restoring the adequacy of transfers over time as envisioned in the National Development Plan II (NDP II) and ensuring that it is implemented through the MTEF. The 2017/18 allocations need to show a significant reduction in disparities across LGs, as per the Program results framework, and be sustained over the medium term.

### **III. Technical Soundness in attaining the Program Objectives through the Allocation Formulae**

24. **The allocation formulae will address the large horizontal inequities in per capita funding for social services, which is the single most serious problem with inter-governmental transfers to the LGs.** Stepping up local development spending during the first years of the reform implementation will be critical for reducing these disparities. Global experience shows that it may help to reduce fiduciary risks if the Program also finances a substantial portion of these grants.

25. **The allocation formulae, which are expected to efficiently lead to achievement of the Program’s objectives are being developed through a rigorous process with substantial stakeholder involvement.** The main formula criteria will be based on the following principles:

- (a) Formulae will be simple and transparent
- (b) Allocations will be equitable within the resources available
- (c) Variables will be exogenous to influence from LGs and avoid disincentives to improve service delivery
- (d) Formulae will support predictable and politically viable allocations.

26. Additional details on the allocation formulae are provided in Annex 2.

27. **To ensure Program support across all stakeholders, the Program will require that fiscal transfers to the best funded LGs do not decline, at least in nominal terms.** There is a legitimate concern amongst stakeholders in the best funded LGs that increasing allocations for poor LGs means a reduction in allocations for their LGs. Thus, an important feature of the Program is the requirement that there not be any “loser” LGs and the fiscal allocations are improved.

#### **Phasing in the New Formulae for Allocation to Individual LGs**

28. **To ensure efficient implementation, the Program design will ensure systematic phase in the formula for non-wage recurrent grants** which a) allocates annual increases in aggregate grant allocations to local governments furthest away from their share under the new formula in the base year b) whilst maintaining the allocations to those local governments receiving above formula levels in nominal terms (holding harmless).

29. Full implementation in the first step will not be achieved in one year. The phase in of the formula under this step prioritizes allocating additional resources on those that are furthest away from formula level

- The local government furthest away from the formula level is allocated enough money to take it to the level of the second furthest away from the formula
- These two local governments are then allocated additional money until they are taken to the level of the third furthest away from formula levels

30. These steps are repeated until the additional resources available are exhausted or the formula fully implemented. The aggregate grant allocations for each year must be no lower than indicated in the Table 3 unless otherwise agreed between the World Bank and the GoU.

31. **The enhanced formula for sector development grants is already implemented in full in education will be implemented in full in health from 2018/19, without any gradual phase in.** All increases in grant allocations will be allocated in line with the formula.

32. **MoFPED will be responsible for monitoring the Program.** MoFPED is fully capable of monitoring the Program as part of its regular operations. It will also be able to track the easily measurable DLIs. Program monitoring reports will be produced quarterly and shared with the World Bank. Line ministries in education and health will also monitor LG use of funds along with the LGFC.

### **Technical Safeguards Against Fraud and Corruption**

33. **The establishment of OTIMS has been an important step toward greater transparency in the fiscal transfer system.** Thus far, OTIMS has been developed to fulfil two main functions: (i) as a database to allow users to access, view and compare sector statistical and transfer information by local government; and (ii) as a tool to help develop formulae for transfers – allowing simulations of the grant allocations under the new formulae and the impact of phasing in new formulae. OTIMS is also intended to increase the transparency of management of allocation formulae. Some sectors have reported that though allocation formulae exist, actual allocations are adjusted based on ad hoc requirements, which has made funding less equitable. Increasing the transparency over allocation formulae would help ensuring that objective and rules-based allocation formulae are maintained, adjusted and adhered to over time. In addition, a portal on the Uganda Budget Website ([www.budget.go.ug](http://www.budget.go.ug)) should act as a central repository for the public to view sector performance, financial information and other information relating to allocation formulae. It is currently possible to access OTIMS as a guest user to view data and allocation formulae.

34. **The LG Performance Assessment (LGPA) Manual will generally support improved processes that will enhance good governance and anti-corruption.** The LGPA enforces strong budget and accountability requirements that promote the appropriate use of fiscal transfers. These requirements on the budgeting side include: balancing total work plan revenues and expenditures balance, with correct delineations between wage, non-wage recurrent, GoU and donor development, and adherence of the LG annual work plan for the development grant to the Government's investment menu and budget guidelines for the fiscal year. On the accountability side requirements include: the LG has submitted a draft annual performance contract of the forthcoming year by April 15, the LG has submitted a draft Budget that includes a Procurement Plan for the forthcoming FY, and the LG has provided information to the PS/ST on the status of

implementation of Internal Auditor General or Auditor General finding for the previous financial year by April 30 (PFMA Section 11. 2g). These requirements are important safeguards against misuse of funds. A complete list of budget and accountability requirements is found in Annex 5.

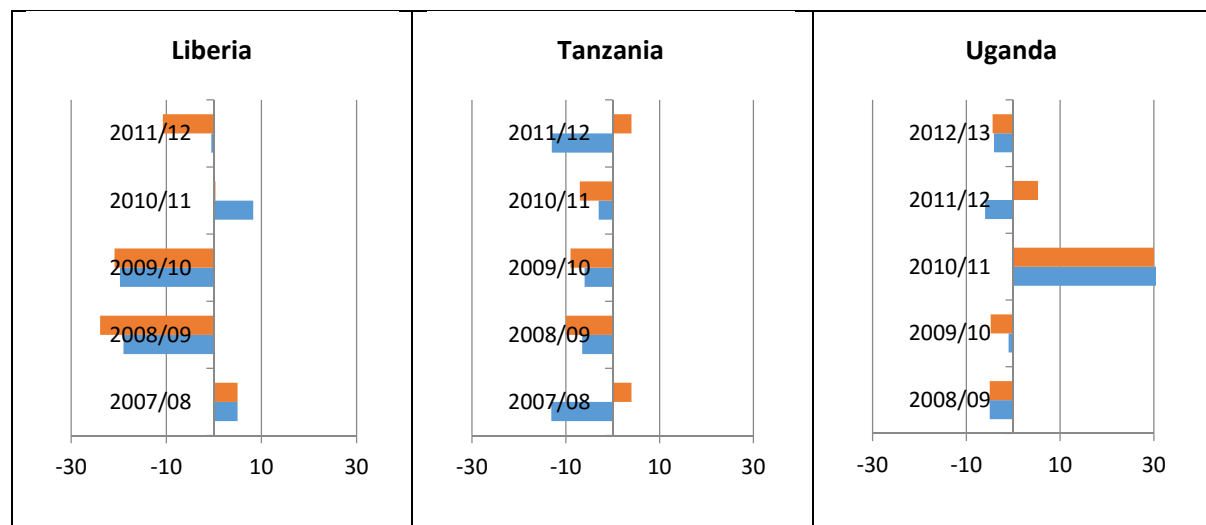
35. **The LGPA criteria also include measures specifically on governance, oversight, transparency and accountability.** These measures are: a) the LG Council meets and discusses service delivery related issues; b) LG has responded to the feedback/complaints provided by citizens; c) LG shares information with citizens (Transparency); and d) LGs communicate guidelines, circulars and policies to lower-level LGs and hold discussions to collect feedback from the citizens.

### Soundness of the Program Expenditure Framework

36. **The Program will fund four years of enhanced fiscal transfers for health and education.** As part of the MTEF, the transfers financed with World Bank support are programmed amounts and are mandatory to be funded by the Government. Therefore, the risk of budget shortfall by the Government is modest. If, however, the Government’s resources allocated to these categories of expenditure were reduced relative to plan, then the World Bank would fund a higher portion of the total expenditures. While this would still mean less resources to the LGs as a whole, equity would still be promoted because allocations would be according to the new formulae. The year 2017/18 includes the World Bank’s disbursement for prior results.

37. **On the whole, Uganda’s budget process works better than those in many other low-income countries.** Institutionally, authority over the budget process is highly centralized in MoFPED, which is a common theme in countries with lower deficits and a key factor behind Uganda’s strong fiscal controls and stable inflation rates since the early 1990s. MoFPED also has the capability to set and enforce the *overall* resource envelope, demonstrated by the fact that the medium-term fiscal framework (MTFF) is a relatively credible guide to *overall* revenues and expenditures. This reliability has been shown, even in nominal terms, and by the aggregate budget in most years compared to other countries (see Figure 4.1).

Figure 4.1. Credibility of Revenue and Expenditure Estimates in Liberia, Tanzania and Uganda (in percent of variation between actual and planned amounts)



Source: Simson and Welham 2014.

### **Adherence of Program Expenditures to Government Priorities**

38. **There will be a close adherence of Program expenditures to government priorities because these expenditures are based on the new allocation formulae, with their rollout to be supported through DLIs.** The new allocation formulae, by design, reflect government priorities, specifically the reduction of inter-LG disparities in fiscal transfers. The allocation formulae will be gradually applied to sector allocations through a rollout process that has been set in the MTEF. The principal aim of the MTEF is to provide predictable allocations to spending units on the basis of agreed government priorities and within the macro-fiscal constraints. The medium-term cost estimates operate as “rolling baselines”. The budget for 2016/17 would include projected allocations for 2017/18 and future years. In the budget process for 2017/18, the projected allocation from the last budget is updated and becomes the basis for spending negotiations, and so forth. This helps to maintain commitments from previous years in the budget debates over the next set of short-term priorities.

### **IV. Program Results Framework**

39. **The Program M&E will determine whether the existing allocations are consistent with the needs of the poorer LGs.** In particular, performance assessments at the LG level will assess whether the appropriate mix of development and non-wage recurrent funds are meeting the priority needs. The cost of carrying out the performance assessments for all LGs is estimated at US\$2 million per year. Compliance with grant conditions and regular required reporting will also be part of the overall program M&E. These requirements will, in turn, provide a strong incentive to the LGs to use the additional resources effectively.

40. **The Program results framework measures the achievement of the PDO which is “To improve the adequacy and equity of fiscal transfers and improve fiscal management of resources by Local Governments for health and education services.”** Adequacy and equity will be enhanced through higher relative and absolute (in real terms) allocations to poorer LGs. The allocation of resources to resource scarce LGs typically results in greater VfM because the marginal impact of a dollar of additional spending is higher in underfunded localities. Section 5 on the economic analysis provides evidence of this causal relationship. Fiscal management of resources by LGs will be enhanced through the provision of incentives to LGs because improved performance is rewarded, via the allocation formulae, with higher fiscal allocations, and through targeted performance support.

41. **The M&E for the Program consists of three elements, each of which serves an important purpose.** The three elements are: (i) the Disbursement-Linked Indicators (DLIs) provide a measure of Program performance and, which, by definition, determine disbursements in the Program; (ii) LG PA performance measures, which allow the Program to measure the quality of LGs’ performance in carrying out key tasks related to fiscal transfers and which partially determine the amount of grant allocations to LGs; and (iii) results chain indicators which capture the causal links between Program activities and final outcomes along the value chain. Final outcomes may not be measurable within the timeframe of the Program, but nevertheless are part of the Program results chain.

42. **Individual LGs, through their local level planning process, decide which particular outcomes they want to achieve and so it is not practical to base DLIs on a wide array of LG-level outcome indicators.** The Program’s strategy is to steadily and systematically strengthen the institutional performance incentives and capacities through procedures and systems for PFM, accountability, procurement, and so on. The strategy also seeks to address bottlenecks for effective service delivery (for example, poor inspection) and to provide partial financing for a gradual rollout of the new formulae for grants to LGs. These formulae will help reduce the disparities while also incentivizing LG performance through their performance-based components combined with targeted performance improvement support.

## **Overall Results Framework**

### ***LG Performance Assessments and Value Chain Indicators***

43. **The LG performance assessments are based on a wide range of cross-cutting process performance measures that can be assessed within a one-year timeframe.** The LG performance assessments include cross-cutting and sector-specific measures which comprise an overall performance score on which funding levels will be partially based (50 percent weight on the score). Cross-cutting measures cover a) planning, budgeting and execution; b) human resource management; c) revenue mobilization; d) procurement and contract management; e) financial management; f) governance, oversight, transparency and accountability; and g) social and environmental safeguards. The measures under a), for example, are:

- (a) All new infrastructure projects in: (i) a municipality; and (ii) all Town Councils in a District are approved by the respective Physical Planning Committees and are consistent with the approved Physical Plans – maximum 4 points
- (b) The prioritized investment activities in the approved Annual Work Plan (AWP) for the current FY are derived from the approved five-year development plan, are based on discussions in annual reviews and budget conferences and have project profiles – maximum 6 points
- (c) Investment activities in the previous FY were implemented as per AWP – maximum 6 points
- (d) The LG has executed the budget for construction of investment projects and O&M for all major infrastructure projects and assets during the previous FY – maximum 4 points

A complete list of measures for LG performance assessments will be provided in the POM.

44. **The LG performance assessments also use sector-specific (health and education) performance measures in the overall performance score.** For education under the human resources category the performance measures are: a) The LG education department has budgeted and deployed teachers as per guidelines (a Head Teacher and minimum of 7 teachers per school) – maximum 8 points; b) LG has substantively recruited all primary school teachers where there is a wage bill provision – maximum 6 points; c) LG has substantively recruited all positions of school inspectors as per staff structure – maximum 6 points; d) The LG education department has

submitted a recruitment plan covering primary teachers and school inspectors to HRM for the current FY – maximum 4 points; and e) The LG education department has conducted performance appraisal for all primary school head teachers and school inspectors during the previous FY – maximum 6 points. The other categories are: monitoring and inspection and, as for cross-cutting measures, procurement and contract management, financial management, governance, oversight, transparency and accountability, and social and environmental safeguards. These measures are designed to be measurable on an annual basis, whereas final outcomes may take several years to become apparent. For example, the process of building a school, staffing it and having students complete at least one academic year could 3 to 4 years, which could well extend beyond the timeframe of the Program.

45. **The Program value chain includes additional indicators that include final outcomes of social service delivery (Table 4.1).** These indicators cover the full value chain from improved planning and inputs to final outcomes and measure the adequacy, equity and fiscal management of resources goals in the PDO. Improvements in the latter are measured, for example, through LG performance assessments, which, themselves, constitute a new Program incentive to improve performance. LGs that meet performance criteria receive a higher allocation. Longer term efficiency gains would be measured by improvement in final outcomes per shilling invested. However, that indicator might take longer than the Program life to measure. LGs are responsible for data collection at the local level and MoFPED is responsible for all other data collection and analysis.

**Table 4.1. Value Chain: Aggregated Results Indicators**

<b>Link in Value Chain</b>	<b>Indicator</b>
<b>Planning</b>	Fiscal Transfers design that incorporates inter-LG distribution according to new allocation formulae.
<b>Inputs</b>	Amount of increased overall funding for decentralized social services Aggregate allocations of LG development funding in U.S. dollars. Amount of resources going to recurrent costs
<b>Outputs</b>	Total aggregate capacities of built structures as measured by: <sup>19</sup> Number of new classrooms and latrines Number of new health clinics and increase in the potential number of people served
<b>Intermediate outcomes/Results (within Program timeframe)</b>	Increased real per capita fiscal transfers to poor LGs Non-wage recurrent Development grants Distribution targets across LGs-Highest to Lowest ratios
<b>Intermediate outcomes/results (longer term—at or after end-of-Program)</b>	Service Delivery: e.g. outpatient attendance, enrollment rates across LGs, and especially in the lowest performing areas (according to baselines)
<b>Proxy Outcomes</b>	-District receive unqualified audit from AG (proxy for VfM-see PER 2013) -For institutional improvements and efficient service: Proxy: Average performance score in the annual performance assessments.

<sup>19</sup> Currently, Development Grants to LGs are sufficient only to carry out renovations of existing structures. Because the proposed PforR will increase the amounts of Development Grants, LGs will be able to finance small scale primary schools and health centers. This increase in resources is expected to have strong pro poor benefits.

Link in Value Chain	Indicator
<b>Final Outcomes</b>	Actual health and education outcomes, for example, enrollment, lower drop out ratios, lower repetition rates, overage students, higher test scores
<b>Efficiency Indicators</b>	Cost per unit of capacity Cost per beneficiary served (by type) VfM audit results Impact evaluation results

46. **Public spending per capita is the key factor most closely associated with outcomes in the health and education sectors.** The 2013 PER showed that higher levels of education spending are associated with better education outcomes. Similarly, higher health spending is associated with higher league table scores (p. 66 and Annex 3 to the PER). There are strong reasons to believe that, all else being equal, increased resources should improve outcomes.

**Assessment of Implementing Agencies Ability to Carry Out M&E**

47. **The M&E for the Program will be carried out by MoFPED and will depend on three main tools.** The M&E for the Program will rely on (i) the Online Transfer Information Management System (OTIMS) which is already fully implemented and provides all of the necessary information to track Program activities; (ii) the performance assessments of the LGs (described in detail below); and (iii) reports by the Auditor General on the use of the fiscal transfers. OTIMS is a tool to assist in the development and transparent management of transfer allocations. OTIMS has been developed to allow users to access, view and compare sector statistical and transfer information by LGs to help develop formulae for transfers – allowing simulations of the grant allocations under the new formulae and the impact of phasing in new formulae. Responsibilities of relevant agencies in carrying out the LG PA will be detailed in POM.

48. **OTIMS will also be valuable in improving the transparency of management of allocation formulae.** Some sectors have reported that though allocation formulae exist, actual allocations are adjusted based on ad hoc requirements, which has made funding less equitable. Increasing the transparency of the application of allocation formulae would help ensure that objective and rules-based allocation formulae are maintained, adjusted and adhered to over time. A portal on the Uganda Budget Website ([www.budget.go.ug](http://www.budget.go.ug)) will act as a central repository for the public to view sector performance, financial information and other information relating to allocation formulae. It is currently possible to access OTIMS as a guest user to view data and allocation formulae. Guest users are able to view data and simulate changes to the allocation formulae, but are not able to save changes.

49. **Systems will be strengthened to ensure adherence to the new allocation formulae.** Transparency of the formulae and data used will be enhanced using the Budget Website and Budget Framework Paper. If sectors fail to apply formulae consistently, there may also be a case for automating some aspects of the calculations. In addition, systems for improving the quality and availability of data should be introduced.

50. **Capacity building for M&E for the Program is underway.** The new Comprehensive Local Government Performance Assessment (CLGPA) has been tested by the central government.



The purpose of this pilot is to achieve the objectives above, and improve the government's capacity to evaluate the LG's performance in using the additional resources to deliver social services and to report on the effectiveness of that delivery. When the system is fully developed and information on how best to conduct the evaluations is captured, the performance assessments will be rolled out across all LGs. In addition to the CLGPA, there are other M&E systems, including sector MIS, MoLG inspection, and NPA assessments on LGs' capacity and performance in planning. All of these forms of M&E will be important to ensure that LGs, especially ones with weaker capacity, are supported to improve efficiency and effectiveness, particularly in light of the increased amount of resources expected provided by the Program.

## **V. Program Economic Evaluation**

### **Rationale for Public Provision and Financing**

51. **Health and education expenditures fund public goods and are therefore appropriately publicly funded.** The vast majority of countries in the world recognize this. The provision of basic health and education services benefits not only recipients of these services but also others and the nation as a whole. Better educated youth are able to create more to the economy as a whole. Improved health also allows for greater economic output and other public goods including lower mortality and fertility. Private provision of these services is not feasible, particularly in the areas that are most in need of better social services because people in these areas do not have the resources to fund basic social services.

### **Program's Economic Impact**

52. **The main rationale for public financing is that public spending per capita is the factor most closely associated with outcomes in the health and education sectors.** The Program will increase value-for-money in education and health expenditures in the districts that are lagging behind which will help to achieve better outcomes for any given level of spending. Bringing every district up to the outcome-to-spending ratio of the districts that perform very highly in both health and education sectors is estimated to save about 0.8 percent of GDP. For comparison, this exceeds annual recurrent public administration expenditures of all districts. This rationale is based on evidence that the highest levels of value-for-money are found in districts with low levels of spending. It is also clear that in absence of improved funding for the lowest funded districts, health and education outcomes will not improve.

### **Economic Benefits Measured by the Program Results Framework**

53. **The financial resources from and the more equitable allocation formulae supported by the Program will support LGs' plans to improve delivery of health and education services, which will lead to improved outcomes.** With additional resources and more equitable distribution targets across LGs, highest to lowest fiscal transfer ratios will be reduced. The results framework will measure the resulting benefits in terms of LGs' performance in increasing the total aggregate capacities for health and education services. Further down the results chain, these facilities (along with adequate staffing) will translate into an increase in the number of patients served, average enrollment rate increase across LGs. The results framework, as an intermediate measure of outcomes, may also conduct selective beneficiary satisfaction surveys relating to health and

education services, progress construction of facilities, personnel hired, and so on. Ensuring efficient cost per unit of capacity as well as cost per beneficiary served (by type) will also be part of Program management. Actual health and education outcomes, for example, enrollment, lower drop out ratios, lower repetition rates, overage students, higher test scores will also be measured though it is likely to extend beyond the life of the Program.

54. **The Program supports the principle that every child should have the same opportunities no matter where they live.** Equality of opportunity embodies not only an equity benefit, but also can produce economic benefits for the reasons stated above. Shifting resources to those areas that currently offer less opportunity and less funding, will have a larger effect on education and health outcomes.

55. **In the absence of the Program, the government program will not be able to increase social expenditures to a meaningful level in the poorest LGs.** A re-distribution through the allocation formulae will help to some degree, but there is the risk that expenditures will be insufficient to make a palpable difference in health and education outcomes. In order to lay the groundwork for urban migration the improvement in social outcomes will have to be significant for rural population to be competitive in urban labor markets. In addition, without additional resources, the incidence of ‘losers’ in the redistribution will be higher. In the absence of the Program the GoU will have less partner support in the implementation of the more equitable allocation formula.

56. **Another economic benefit of the Program is helping avoid a migration of people to LGs with better services but not necessarily more jobs.** The Program deals with this risk by improving health and education services in underserved LGs so that people will not feel the need to move to better served LGs. If the Program can contribute to better health and education outcomes, then over time people in poorer LGs will be in a better position to move to areas where there are actual jobs.

57. **The introduction of new allocation formulae itself will aim to minimize the number of ‘losers’, or avoid losers altogether.** To minimize the number of LGs that get fewer resources than under the current grant system, changes will be gradually phased in over the medium-term. The number of ‘losers’ depends on plans to increase the share of transfers to local government in the national budget. As noted above, if more resources are made available to local governments, it will be easier to increase the equity of allocations without reducing the amount local governments receive under existing formulae. Changes to the MTEF during the roll-out process may require an adjustment to the schedule for phasing in new allocations.

### **Economic Evaluation of the Program**

58. **An econometric analysis of district level data shows that the District League Score increases per dollar of additional transfer for Health and Education.** Districts were ranked by two efficiency measures considering health and education outcomes per dollar of spending and outcome regressed against spending per capita and social conditions. By ranking districts in this way, the economic analysis can determine whether the Program promotes efficiency by ensuring higher allocations to those Districts in which social spending have shown to achieve better outcomes per dollar than other districts. The efficiency measure used in the table is the outcome-

to-spending ratio; spending is sector-budgeted spending per capita (in UGX, thousands); governance is a dummy that is 0 if the district received an unqualified audit in the Auditor General’s Annual Report and 1 if not; and income is a GDP Index for districts that ranges from 0 to 1, calculated by the UNDP in its Uganda Human Development Report 2007.

59. **The Program’s economic impact is also measured using LG level results indicators, but most impacts are not measurable during the life of the Program.** Therefore, economic benefits are based on progress on intermediate outcomes and projections of the value of improved health and education services financed by the Program. Health benefits will be quantified according to standard methodologies including value of additional work made possible by health improvements. Education benefits will be valued mainly on the enhanced wage rates related to additional years of schooling.

### World Bank Added Value

60. The Program is expected to have a major impact on improving the overall financing of LG expenditures because it will address the two most important sectors in terms of funding: Education and Health. The IDA is expected to contribute about one third of funding for the four grants constituting the Program’s expenditure framework in a course of four years. In the 2016/17 approved budget, education and health sectors receive about 93 percent of the total non-wage recurrent conditional transfers, of which education accounts for 77 percent. Education and health account for 36 percent of conditional development grants to LGs, with education accounting for the majority at 27 percent (Table 4.2). Thus, it is imperative to ensure efficient allocation of budget resources in these sectors.

**Table 4.2. Aggregated LG Non-Wage Recurrent and Development Expenditures**

	2016/17 Budget	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Sector Non-Wage Recurrent</b>						
<b>Education</b>	231.38	252.09	273.01	294.16	315.55	337.21
<b>Health</b>	45.85	64.07	82.29	100.51	118.72	136.94
<b>Other sectors</b>	21.46	24.01	26.86	29.73	32.69	35.77
<b>Non-Wage Recurrent Total</b>	<b>298.69</b>	<b>340.28</b>	<b>382.17</b>	<b>424.39</b>	<b>466.96</b>	<b>509.93</b>
<b>Sector Development</b>						
<b>Education</b>	32.51	63.73	97.99	135.52	176.56	221.37
<b>Health</b>	11.36	20.88	31.32	42.75	55.25	68.89
<b>Other Sectors</b>	76.82	90.62	105.84	122.35	140.25	159.62
<b>Sector Development Total</b>	<b>120.69</b>	<b>175.23</b>	<b>235.15</b>	<b>300.62</b>	<b>372.06</b>	<b>449.88</b>

61. **Adoption of the PforR instrument will help to achieve lasting results by leveraging finance to strengthen institutions and build capacity.** Implementation of effective fiscal decentralization reforms will result in fiscal savings and improvements in value-for-money that could be quite substantial. In addition to supporting implementation of the intergovernmental fiscal transfers reform, the Program will help the central government to address poor performance in LGs in a number of ways. The Program will support the design and coordination of an LG performance system within the existing government review processes and create mechanisms for target monitoring. The Program will help to finalize performance-based components of the grants’

formulae which will help to enhance the LG incentives, and will follow up with capacity development activities which will help the central government to improve weak performance within and across LGs.

## Annex 5: Summary Fiduciary Systems Assessment

### I. Fiduciary Assessment Methodology

1. As part of the UgIFT program preparation and in accordance with OP/BP 9.0, a fiduciary assessment was carried out that evaluated the Program fiduciary systems to determine whether they provide reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purpose. The fiduciary assessment comprised of three separate assessments of the Procurement, Financial Management and Governance aspects of the Program. In addition, the assessments took into account the requirements of the *Guidelines on Preventing Fraud and Corruption in Program for Results Financing* dated February 1, 2012 and revised July 10, 2015. The objective of the fiduciary systems assessment was to provide a reference that can be used to monitor fiduciary systems performance during Program implementation and identify actions, as needed, to enhance the fiduciary systems during Program preparation and implementation.

### II. Planning and Budgeting

2. **National Level:** The country's planning and budget process is managed within a year horizon in line with a five-year National Development Plan (NDP). Government has a costed National Development Plan and sectors have developed sector strategies aligned to the policy priorities of the National Development Plan. Uganda has a five-year MTEF which is meant to coincide with the planning horizon of the NDP.

3. The overall mechanism by which Government allocates its resources is the MTEF. The MTEF sets sector spending ceilings within a rolling three-year framework (the first year being the Annual Budget) for both the Central Government (CG) and Local Government (LG). The level of expenditure is determined by the resource envelope, which takes into consideration the macroeconomic environment and the prospects for resource mobilization. Grants are provided for within the MTEF for each sector.

4. The National Budget Framework Paper (NBFP) is the Government's overall strategy document for the budget and provides the link between the Government's overall policies (identified in the NDP) and the annual budget. It is cleared by Cabinet and presented to Parliament by the 31st of March each year, prior to the finalization of the Annual Budget. Sectors of Education and Health use agreed formulae for schools (pupils) and health facilities to arrive at budget figures (grants) which are submitted to the Ministry of Finance and placed in the BFP, which is the Government's budget strategy document. The BFP contains information on: macroeconomic policy and plans; overall fiscal strategy, such as revenue projections; the overall resource envelope for the medium-term; overall priority interventions and proposed sectoral expenditure plans. It also contains summary information on LG grants.

5. In cognizance of these shortcomings and as part of the lessons of implementing the first NDP, the Government has instituted measures to consciously align more strategically the budget to the plan. GOU has started upgrading from Output Based Budgeting to Program Based Budgeting (PBB) which will enhance budget functionality and alignment to the NDP II, and also help sectors to report more on outcomes that impact on service delivery rather than routine activities and outputs starting with the Health sector in the 17/18 financial year.

6. Procurement planning is mandatory for all GoU Public Procuring and Disposing Entities as an important instrument to control the use of the budget and for achieving VfM. Procurement planning is an integral part of the budget process.

7. The Uganda budget classification is based on an administrative, economic and programmatic classification. The classification codes include fund and funding source, administrative organization (vote and cost centres), project category, MTEF (sector, program, output), and account (class, item, and sub-item).

8. MoFPED compiles quarterly Budget Performance reports from MDAs and Local Governments. The Budget Monitoring and Accountability Unit (BMAU) in MoF also follows up government spending up to LG and spending unit level.

9. Government continues to make budget information increasingly available to the public. This is a good indicator for promoting **budget transparency** and accountability with the Ministry of Finance providing up-to-date budget information by publishing quarterly releases in the budget website ([www.budget.go.ug](http://www.budget.go.ug)). Grants to schools and health facilities are displayed on noticeboards at LG and facility levels. In addition, it has launched an Online Transfer Information Management System (OTIMS) which provides the public with information useful for monitoring expenditure and demanding accountability. The International Budget Partnership (IBP) 2015 Open Budget Survey, which assesses the budget transparency of countries in the world, ranked Uganda as 3rd best in Africa; scoring 63 percent compared to 55 percent in 2010. The PPDA law requires that public procurement and disposal opportunities are accessible to all interested providers to encourage competition. Procurement plans are displayed on entity websites and the Government Procurement Portal ([www.pdda.go.ug](http://www.pdda.go.ug)).

10. **District/Municipality and Facility Level:** Related to the FD program, District and Municipal Local Governments prepare budget framework papers, and annual budgets and work plans within the expenditure ceilings provided by the central government. All cost centers in districts such as schools and health units are required to prepare and submit work plans and budgets to the Districts. The District/Municipal level prepare the plans and budgets for capital development for both investments at the District, School and health unit level.

11. At District level, there is a challenge with the Procurement Plans (PPs) submitted by end users/user departments and technical staff which provide inadequate information regarding the technical requirements resulting in inaccuracy of the cost estimates. Implementation of the PPs is affected by non-availability of funds for some items or funds available at the end of the financial year.

12. School and health units prepare plans and budgets for the recurrent non-wage grant funded by UPE/USE or PHC grants. Further Donor funded activities are not reflected in these budgets. There is a risk of duplicate funding for the same set of activities in health centers by both the Government and off-budget donors. Procurement plans are not prepared at primary school and health center level due to the very low expected grant amounts.

### III. Procurement

13. **District Level:** Districts budget for and execute planned activities funded from the conditional Development Grant for district as well as School and health units. The assessment established that: (i) Procurement Disposal Units (PDUs) customize Standard Bidding Documents (SBDs) issued by PPDA for specific bidding requirements for goods and works, and similarly for the Request for proposals for consultancies are comprehensive with relevant information which enable bidders to adequately prepare their bids and provide bidders a mechanism to lodge complaints; (ii) some of the PDU staff lack skills in the preparation of the solicitation documents resulting in incomplete details and methodology for carrying out evaluation; (iii) the PDUs adhere to appropriate methods of procurement, minimum bidding period, advertising of bid opportunities; (iv) the Local Government Regulations 2006 are not aligned to the PPDA Act 2003 amended 2014; (v) The Evaluations of bids and proposals are carried out by members of evaluation committees approved by Contracts Committees (CC), however, there are delays in finalization of evaluation beyond the 21 days allowed for by Law attributed to inadequate participation by some evaluation members due to lack facilitation in monetary terms, and limited knowledge and experience in carrying out evaluations; (vi) some of the Contracts Committees are not fully constituted, for example out of the five members required to constitute a CC, the councils of Bushenyi, Isingiro, and Wakiso are not fully constituted as they have 3 members; (vii) Award of contracts receives appropriate approvals of CC followed by posting a notice of best evaluated bidder notice and approval of Solicitor General if applicable; (viii) Political interference/influence peddling in the procurement process was also cited as a major constraint to VfM in the procurement cycle at district level; and (ix) the councils maintain registers for signed contracts but lack important details such as contract commencement date, duration and completion date.

14. **Facility level:** The Health Facility In-charge is the Accounting officer, who is also responsible for Procurement, and Accounts. At school, depending on items to be purchased, the Head Teacher hands over money to a teacher to do the purchase. After purchasing the items, the teacher accounts for the money by delivering purchased items and submitting receipts for accountability purposes. At both the school and health unit levels, competitive bidding processes are not used.

### IV. Financial Management Arrangements

15. The PFM reform strategy is currently being implemented starting with changes to the 2015 PFM Act. These changes enable better cash management and improve predictability in funds flow for sector ministries. However, to sustain these it is important that (i) GoU continues to work on ensuring a credible medium term fiscal framework, with credible annual revenue and expenditure estimates; and (ii) budget and expenditure commitment controls through the IFMIS are adhered to prevent overspending and expenditure arrears.

16. **IFMS and other Information Systems:** The accounting systems of the central government are computerized using IFMS Tier 1. Only 59 of the 115 districts are computerized on IFMS as follows: (i) 14 Municipal councils on Tier 1; and (ii) 45 districts on Tier 2. The rest of the 56 districts still use manual systems. The Tier 2 IFMS is not fully compatible with the Tier 1 IFMS that is used by the central government and poses challenges in processing grant transfers and consolidation of government financial reports. The IFMS is used for record keeping,

processing and making payments and generation of financial reports. Use of the IFMS has the following challenges;

- (a) **Incomplete coverage:** The IFMS is not installed in 56 districts and therefore officers in these districts (CAO and CFO) have to travel to Kampala or a nearby district (regional center) that has access to the system to perform such roles as processing warrants to transfer funds to districts, sub counties, schools and health units which is both time consuming and expensive.
- (b) **Accountable advances:** The IFMS does not provide for tracking of advances and therefore advances are expensed immediately on disbursement thus making it difficult to track and seek refund of unused advances.
- (c) **Intermittent internet connection:** Reliability of internet provision and power supply in LGs is an impediment to the operation of an IFMS site.
- (d) **Budget Control, Monitoring and financial reporting systems** need to be strengthened by having the IFMS complete coverage of the central government budgetary entities, and coverage of local government entities to the extent possible. IFMS controls include an adequate audit trail, and prevent any commitment that would take cumulative expenditure above the cumulative quarterly limits. In the past these controls have been sometimes bypassed, such that commitments were made outside the IFMS. However, a strategy to deal with such expenditure arrears has recently been instituted. Internal controls exist, however OAG audit reports still show that they continue to be somewhat ineffective.

17. The Government uses several ICT systems but these are not integrated. The IFMS for accounting, OBT for budgeting in Local Governments, PBS for budgeting in central governments and IPPS for payroll processing. Manual intervention is required to input data from one system to the other. This compromises data integrity and increases the risk of errors that may cause financial losses as in the case of the overpayments to staff noted by the Auditor General in the 2015/16 audit report. It is necessary to integrate the different ICT systems to minimize manual interventions and ensure data integrity.

18. **Manual book keeping:** In the 56 districts without access to IFMS, and the schools, health units and sub counties, maintain their accounts manually. The primary schools maintain a cash book for the UPE bank account. These cashbooks are generally well maintained by the head teachers and are sufficient to explain utilization of UPE funds in schools.

19. Districts designate a sub- accountant for Health Centre IVs who is responsible for book keeping. Accounts are maintained manually but are not sufficient to prepare proper financial statements. Health Centre-IIIs do not maintain accounting books. Sub accountants at sub counties are responsible for the accounting function for health centers III but in practice they do not perform this role.

20. **Treasury Single Account (TSA)** The MFPED introduced a TSA in October 2013 in accordance with the Public Finance Management priorities to improve resource utilization. Prior to the creation of the TSA, the treasury operated over 2,000 accounts, some of which had long



become dormant. Multiple accounts presented a breeding ground for the misappropriation of public funds (as was the case in the OPM in 2012) and resulted in inadequate supervision by MFPED. Sometimes, public funds would lie idle and undetected in some accounts while the ministry borrowed to finance other activities. With the implementation of the TSA, a number of idle and dormant accounts in the Bank of Uganda and other commercial banks were closed. The Treasury Single Account system has been rolled out to all government MDA accessing funds from the Consolidated Fund and on IFMS. The treasury has since benefited from improved absorption capacity, improved Cash management through optimal use of available funds and a reduction in government borrowing

21. The TSA framework is being implemented in a phased manner where the Central Government votes covered MDAs and extended gradually to include salary accounts which are all processed through the IFMS, and bank accounts maintained at the Bank of Uganda (BoU), as well as LGs and upcountry referral hospitals connected to the IFMS. In the later phase, the TSA is expected to include donor funded projects and other accounts holding public funds.

22. Central government grants are transferred quarterly to the district TSA that is maintained in Bank of Uganda. The district then transfers the amounts also on quarterly basis to the sub counties, health units and schools. The transfers are electronically processed using the IFMS. The process is not efficient and substantial delays in processing transfers were noted in the districts, schools and health units that were visited. These delays are attributed to inadequate capacity of some users of the IFMS and intermittent IFMS connections. Such delays prevented the recipients from fully utilizing the grants within the year resulting in refund of unused balances at the year-end.

23. **Banking arrangements at LG** - Districts maintain a bank account- the Treasury Single Account (TSA) in Bank of Uganda on which all district grant funds are deposited. The districts also maintain a collection bank account and donor specific bank accounts in commercial banks. Local revenue collections are transferred from the district collection bank account to the TSA. An operations bank account is maintained in a commercial bank for cash payments.

24. Schools and health units maintain grant specific bank accounts for the PHC grant and UPE grant. The signatories to the school bank accounts are the head teacher and School Management Committee Treasurer. For health units, the signatories are the health unit in charge, District health officer (DHO) or sub county chief. The Accountant General's authorization is required to open a bank account. Guidelines should clarify the specific signatories to health unit account.

## V. Auditing Arrangements

25. **Internal audit** Following the PFM Act 2015, the Office of the Internal Auditor General was set up and thereby given more responsibility in the conduct of its oversight function of the Public Finance Management reforms in the Country. The office is required to review and consolidate internal audit reports from the votes and externally financed projects and also consolidate the reports of all the audit committees of the respective votes.

26. Section 49(1) of the Public Finance Management Act 2015 mandates the Minister of Finance, Planning and Economic development to establish an audit committee for each sector of Government and audit committees for a number of votes in Local Governments.
27. The process is being decentralized and strengthened with Audit Committees in each sector and technical guidance from the center, but improving its effectiveness ultimately depends on the Accounting Officer of each MDA taking action on identified weaknesses in audit reports.
28. There are eight sector Audit Committees together with six Audit committees for Local Governments established bringing to a total of 14 audit committees. Each audit committee is composed of five members and 1 secretary. Key sectors relevant to the Program would be Health, Education and Accountability (MoFPED) and LG audit committees.
29. The District administration structure provides for an internal audit department. The departments were functional in all the districts that were visited. The scope of the district internal auditors includes; schools, health facilities, and sub counties within the district. The auditors are required to prepare quarterly internal audit reports that should be submitted to CAO, with copies to the chairman of the Council and the Internal Auditor General. The independence of the Internal Auditor is diminished because he is supervised by the CAO. The Internal auditor reports to the CAO and the CAO is responsible for his appraisal and approval of his/her work plans.
30. **External Audits by OAG.** The Auditor General is responsible for the audit of all government funds including funds at the Local Government and facility levels. The Auditor General conducts annual financial audits on all government ministries, and local governments including facilities such as schools and hospitals.
31. Due to resource constraints, the auditor general does not cover all lower local governments (sub counties) and secondary schools. For the financial year 2015/2016, 1,189 sub counties were not audited due to lack of funds. Similarly, 277 secondary schools and tertiary institutions (22 percent) out of a population of 1,280 schools and tertiary institutions were not audited. This poses a risk of failure to detect misuse of funds in lower local governments and secondary schools and tertiary institutions. In that same financial year, the OAG reported shillings 4.9 billion unaccounted (lacking supporting activities to explain expenditure) for funds in Local Governments of which 1 billion were in respect of the 418 lower local governments that were audited that represented 26 percent of all lower local governments. The OAG also noted that 84 District LGs failed to utilize UGX 13.2 billion by June 2016 due to various factors, and the funds were returned by LGs to the consolidated fund under the Treasury.
32. During the year ended June 30, 2015, OAG audited 109 MDAS, 83 Statutory Corporations, 119 Projects, 35 Forensic investigations, four IT audits, 878 local governments, 277 secondary schools and tertiary institutions, 13 referral hospitals, 11 VfM audits and four specialized (engineering) audits.
33. Results of the June 2016 OAG audit report indicate that MoFPED had an unqualified opinion while MoES and MoH had qualified opinions attributed to nugatory expenditure, outstanding advances and mischarge.

**Table 5.1. Breakdown of the Types of Opinions Issued**

	2010	2011	2012	2013	2014	2015
<b>Unqualified</b>	40%	59%	45%	58%	70%	79%
<b>Qualified</b>	57%	40%	47%	38%	30%	20%
<b>Disclaimer</b>	3%	1%	7%	4%	0%	0%
<b>Adverse</b>	0%	0%	1%	0%	0%	1%

Source: OAG report 2015.

34. The table clearly shows improving trends of audit opinion over the period.

35. **Timeliness of audits:** There has been major improvement in external audit over the last five years. The Public Audit Act of 2008 greatly increased the financial, legislative and administrative independence of the office. The quality of audits has greatly improved and these are in line with INTOSAI standards. For the last two years, Annual Audit reports were issued within six months of the end of the FY following the new PFM Act of 2015. OAG prepare a separate audit report for each LG which can be accessed at [www.oag.go.ug](http://www.oag.go.ug). Follow up of the OAG recommendations is made by the Parliamentary Accountability Committee (PAC), Statutory Agencies PAC at CG, and LG PAC at the respective LG.

36. **Follow-on Budget reports, Audits and Public Access:** PAC work is not yet up to date and there continues to be a backlog of old audit reports not yet reviewed, especially for local governments. The PAC attempts to deal with the latest audit reports first, but there is a delay in discussion of these reports in Parliament. GoU has followed up on these reports by issuing seven Treasury Memoranda. There is need for discussion of the more recent reports in Parliament and follow up by the Treasury on these reports. The PEFA assessment for both 2008 and 2012 provided a D+ rating to PI 28 (legislative scrutiny of external audit reports). The main reason for this rating is that Parliament has not consistently debated and approved audit reports on the Consolidated Accounts. In terms of public access to audit reports, OAG makes available key financial audit information on the official OAG website [www.oag.go.ug](http://www.oag.go.ug) which is widely accessible.

37. **Procurement Audits:** Besides procurement review and investigations form a core part of PPDA's mandate of oversight. Procurement Audits: In FY 15/16, the Authority conducted 114 (81 percent) out of the planned annual target of **140 procurement and disposal audits**. A key test of the efficiency of the procurement audits is the number of recommendations that are implemented.

38. **Follow-up of Audits and Investigations Recommendations**<sup>20</sup> A total of 590 recommendations were reviewed and of these, 336 recommendations (57 percent) were found to have been implemented and 254 (43 percent) were either partially implemented or not implemented. The key recommendations that were not implemented by the Entities were: (a) 21 percent - related to contract award and implementation mainly due to poor contract monitoring and preparation of the attendant reports; (b) 21 percent - failure of the PDUs to maintain complete procurement action files as stipulated in the PPDA Act -missing payment records and contract

<sup>20</sup> Public Procurement and Disposal of Public Assets Authority: *Annual Performance Report for the Period July 2014–June 2015*

management records; and (c) 14 percent - Failure by the Accounting Officers to take disciplinary action against officials in their PDEs.

39. This shows a downward performance on the part of Entities. The Local Government Assessment tool cannot track this indicator as it is not availed for all Entities on annual basis.

### **Staffing in LGs**

40. There is a vacancy rate amongst the LGs. The levels ranged from 10 percent in Kibuku District Local Government to 89 percent in Kamuli Town Council. Understaffing overstretches the available staff beyond their capacity, creates job-related stress to the fewer staff and negatively affects the level of public service delivery to the community. This was attributed to limited wage bill and a ban on recruitment by the Ministry of Public Service.

41. **Staffing of the financial management function.** The district local government finance structure provides for sufficient finance staff with clearly stipulated qualifications and experience. In the nine districts visited, 4 (four) did not have substantive CFO. The absence of competent CFOs may compromise the quality of financial management. The head of the department (CFO), is required to have a Bachelor's degree, a professional accounting qualifications, and a Diploma in Public Financial Management.

42. **Staffing of the procurement function.** The PPDA Act of 2003 provides for the establishment of the relevant administrative organs within a Procuring and Disposing Entity (PDE) composed. The staffing levels in the District PDUs were noted to be adequate in terms of the numbers of staff depending on the Government establishment requirements for respective councils. The staff consists of Senior Procurement Officer (SPO), and/ or Procurement Officer (PO), and Assistant Procurement Officer (APO) with appropriate qualifications and experience, however the support staff are not adequate, for example, the districts of Jinja, Namutumba, Rakai and Luwero don't have support staff (for example, secretary/ records officer) responsible for procurement documentation and record keeping. This aspect will also be covered by the Local Government Assessment tool.

## **VI. Program Fiduciary Arrangements**

43. **Fiduciary Responsibilities:** The FD PFORR fiduciary arrangements will be implemented at the Central Government and Local Government levels following government procedures and processes as follows:

- (a) **Managing Transfers at the Central Government level** – the Ministry of Finance, Planning and Economic Development (MoFPED) and the two sector ministries of Education and Health responsible for the program grants responsible for the grant formulae as well as the budgeting, planning and funds release processes.
- (b) **The Auditor General, Inspectorate of Government and the Public Procurement and Disposal of Public Assets Authority (PPDA)** will play their roles in the accountability chain to ensure compliance with the laws while the Central Bank (BOU) will facilitate funds flow processes.

- (c) **Managing Transfers at the Local Government level**, the CAO is responsible for preparing and submitting warrants to MoFPED, based on which funds are released to Districts as well as to health and education facilities under the existing government program.
- (d) **The LG annual performance assessment framework** will be used to measure and incentivize LG institutional performance improvements with respect to fiduciary, safeguards, revenue mobilization, project implementation and management. OPM will coordinate the assessment process.
- (e) **Targeted Performance Improvement Programs.** The Ministry of Local Government's role is coordinating a process of targeted support to poor performing local governments and local government processes, as well as to Inspect, monitor and, offer advocate for LGs.

44. **Disbursing Funds under the Program:** A results-based modality will be followed whereby funds will be disbursed against achievement of results into the designated Program account at the Bank of Uganda controlled by the MoFPED/Treasury. Given that funds will be disbursed using the DLI approach, it will work as follows:

- (a) A set of DLIs for each year of the Program has been determined and this will start in year 1, 2017/18.
- (b) At effectiveness – Year 1 (around quarter 2 2017), an advance against Year 1 results can be disbursed to the MoFPED/Treasury designated Program account if requested.

45. There will be annual reporting and verification of DLIs which will result in typically one disbursements per year against results (as well as one advance) or any other period as agreed with MoFPED. MOFPED will also ensure that results areas are appropriately budgeted for and release of funds effected for program implementation.

46. The following summarizes the steps to be followed for disbursing funds under the Program:

- (a) Endorsement of the DLIs progress reports by the FD Steering Committee using the reporting and verification processes set out in Annex 3.
- (b) MoFPED notifies IDA and requests for disbursement of funds based on the verified and agreed assessment results and DLIs amount through a withdrawal application.
- (c) In case of outstanding advance against DLIs, subsequent results achieved will be used to offset or liquidate the advances.
- (d) IDA transfers funds to GoU Treasury Holding Account in Bank of Uganda and notifies the client through client connection.

47. The risk that funds transferred from the Treasury may be different from the funds received at the service delivery units has been minimized by the automation of funds transfer by straight through processing (STP) and electronic fund transfers. There is also transparency by publishing

the transfers in the popular local media/daily newspapers by MoFPED. Funds received by the districts and service delivery units are also displayed on their notice boards. Sensitization of the transparency mechanisms in place will be essential for the citizens, schools and health centres to be aware where to access information.

48. The assessment considers the banking and funds flow system to be relatively strong with a moderate risk.

49. **Program Financial Statements:** The main program financial statements will be made of Receipts and Payments where by receipts will be composed of the two main sources of funds: (i) Government own resources and (ii) IDA PforR funds.

50. The payments side will aggregate all transfers to LGs, schools and health facilities in regard to the four grants being supported by this program. In addition, any relevant program expenditures from the national level implementing ministries or agencies (MoFPED, OPM, MoLG, MoH, MoES) will be included.

51. **Program Audit:** The Program will be audited within OAG existing framework. The OAG will audit the above described program financial statements (PFS) as a whole and provide an audit opinion thereon. Auditing the “program” of transfers will entail the OAG to audit how the transfers take place (whether in accordance with the program design), whether the recipients receive the transfers (including the final recipients such as schools and hospitals) and the timeliness. OAG will also carry out relevant tests using sampling techniques to confirm the receipt of “program funds” by these recipients.

## **VII. Fraud and Corruption Complaints and Grievance Handling Systems within IFT agencies**

52. **Alignment with ACG for PforR Operation** - To address the **Fraud and Corruption (F&C)** associated with fiduciary risk the PforR implementation will be aligned to the Anti-Corruption Guidelines (ACG) applicable to PforR Operations – “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results financing”, dated February 1, 2012 and revised July 10, 2015. The measures that will be instituted under the Program in line with the ACG guidelines include the following:

- (a) Sharing of information on F&C allegations – in line with the PforR ACGs, the Inspectorate of Government (IG) will share with the World Bank, through its statutory bi-annual reports of its activities to Parliament, action taken or being taken on complaints and grievances received from the general public on F&C. The Criminal Investigations and Intelligence Directorate (CIID) and Directorate of Public Prosecutions (DPP) will also share with the World Bank, through their Annual Reports action taken or being taken on cases reported to them. The IG, CIID and DPP are mandated by their governing Statutes to receive complaints and reports from the public and other stakeholders. However, for the PforR, the IG will be the coordinating institution for receiving and reporting on cases of suspected fraud and corruption. The IG, CIID and DPP have established Regional Offices strategically throughout the country to deliver its services closer to the people.

- (b) Sharing of debarment list of firms and individuals. The GoU Public Procurement and Disposal of Public Assets Authority (PPDA) will share with MoFPED, the participating agencies and the IG, CIID and DPP, on a quarterly basis, the list of firms and individuals which have been debarred or suspended from participating in procurement in Uganda. Likewise, MoFPED will obtain a list of temporary suspended firms and individuals from the World Bank and share this list with the PPDA, IG, CIID and DPP. The bidding documents for works, goods and services to be financed under the Program will have explicit clauses to the effect that firms and/or individuals which have been debarred or suspended by the World Bank or PPDA would not be eligible to bid under the Program.
- (c) Investigation of F&C allegations – The IG and CIID as the primary and secondary agencies for investigation, and in the case of IG, prosecution, of cases of corruption and crime respectively, are granted powers by the Constitution (1995) and their governing Statutes to enable the agencies perform these functions. The IG is also granted independence in the performance of its functions and is not subject to the direction and control of any authority and is only responsible to Parliament. The IG governing Statute empowers the IG to work in consultation with other technical experts to enhance the performance of its functions. In 2010 the IG entered into an MoU with the Integrity Vice Presidency (INT) of the World Bank to cooperate with each other within the scope of their mandates, and specifically to closely cooperate and consult each other regularly on matters of mutual interest by, amongst others; (i) sharing information of relevance for detection, substantiation and prevention of F&C in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under the World Bank Group rules and policies and (ii) undertake joint activities and collaborate when appropriate in each party's efforts to detect, substantiate and prevent F&C. The MoU will therefore make it possible for the INT to collaborate with the IG on any case of suspected fraud and corruption in the Program and INT will also leverage the synergies of the MoU to similarly collaborate with the CIID and DPP on such cases.

53. **The handling of fraud and corruption in the context of the IFT will be done in line with the existing GoU processes and using the existing mandated institutions.** The agencies mandated to fight fraud and corruption include the Inspectorate of Government (IG), the Criminal Investigation and Intelligence Directorate of the Uganda Police Force and the Directorate of Public Prosecutions. The OAG and PPDA support the process of scrutiny in the use of public funds and their reports will inform the work of the three agencies mandated to fight F&C. To enhance their work, the three main agencies have set up regional offices to take services closer to the people.

54. Further, (i) the IG has put in place a citizen monitoring mechanism in the 56 districts in the greater North and this will help expedite receipt and transmission of F&C complaints to the center; and (ii) the Government, via the budget website and budget hotline has established a system for the public to provide feedback on LG budgets, and is in the process of establishing a feedback follow up mechanism.

55. The avenues for grievance redress will therefore be as follows:

- At the facility level for a such as the HMC and the SMCs
- At the Local Government, via the complaints focal points
- Nationally via the IG and budget website.

56. Guidelines for facilities in investments will be revised to require facilities to public avenues for grievance redress at the facility level, including when for new investments.

### VIII. Summary Risk Assessment

57. Considering that the PDO of this Program is geared to a financing mechanism at the upper-end of the value chain, program fiduciary risks are assessed from that perspective.

58. The Fiduciary Systems Assessment has identified the various implementation and program risks and their potential impact on the ability of the Program to attain its development objectives. As discussed above, the program Implementation framework is characterized by weak systems at LG and facility/school level as well as by capacity constraints to deliver the required services. Low staffing levels, systems availability (IFMS) and connectivity pose additional risks. The Program will be implemented in an environment of low levels of compliance to laws and regulations with weak enforcement regimes. Planning and budgeting figures are not consistently adhered to resulting in ad hoc resource allocation. Weaknesses in procurement practices and control systems results in creating opportunities for the substitution of legitimate procedures that give the scope for rent-seeking. The gaps in the functioning of monitoring and oversight systems like audit coverage of lower LGs.

59. The FSA identified three groups of risks which are set out in the table.

- The first group of risks relate to the functioning of existing processes and systems at the local level.
- The second area relates to problems in LG systems and processes, which require adjustment at the center to adjust/improve them.
- The third group of risks relate to the awareness of local governments to implementing systems and processes which is likely to result in a lack of adherence to those systems.

60. Key design features of the proposed IFTUgIFT PforR is to incentivize change by rewarding desired LG operational and institutional performance through the new LG assessment tool and operationalization of the grants allocation formulae. Risk mitigation measures have been built into by a set of PAPs. Linking the achievement of Results to the disbursement of World Bank funds (through the use of DLIs) along with PAPs will also mitigate the risks identified to a considerable extent.

61. Based on the above analysis of the risks, the overall fiduciary risks of the Program are rated **Substantial**.



## Risks and Mitigation Measures

No.	Issue	Risk	Mitigation Measure	Responsible
<b>1. Functioning of existing processes and systems at the local level:</b>				
i	There is understaffing in key positions, for example, CFO creates funds absorption challenges and undermines delivery of services;	Absorption challenges and slow down delivery of services	Through Targeted Performance Improvement Programs the weakest LGs will be supported to fill critical positions in District and incentivize filling of positions through the assessment process.	MoLG
ii	Lack of skills in Preparation of Solicitation documents for works and consulting services as well as evaluation of bids and proposals; and most LGs do not capacity to supervise civil works	Contract award to otherwise non-qualified firms, and shoddy work	Compliance with preparation of bidding documents incentivized through the assessment process.  Through Targeted Performance Improvement Programs, support the weakest local governments to improve solicitation documents for works and consulting services; evaluation of bids and proposals to the weakest LGs.  <i>Parallel programs would support broader capacity building, which could include requiring Contract Managers (civil works) to do online contract management course at <a href="https://www.procurementlearning.org/index.php">https://www.procurementlearning.org/index.php</a>,</i>	PPDA, MoH, MoES, MoLG, LGFC
iii	Accounting officers do not systematically implement the recommendations of the OAG, Internal Audit and LG PAC	Lack of accountability and no VfM in execution of Government programs	As part of Revision to Guidelines, develop timelines and responsibility centers for implementation of all OAG and LG PAC recommendations  Audit follow up will form part of annual assessment and be monitored by IAG and factored into appointment of accounting officers	AGO, NITAU  MoPS, MoLG, LGFC, OAG, MoFPED/IAG
iv	High No of Fraud and corruption complaints (abuse of office and funds) received by the Inspectorate of Government against the District staff as well as school and health unit staff (June 2016 Report to Parliament)	Fraud and Corruption	The performance assessment includes provisions for strengthening financial management transparency and accountability that will be monitored consistently.  <i>Parallel programs support strengthening of IGG (for example, SUGAR) and other institutions to deal with corruption cases.</i>	AGO, NITAU  MoPS, MoLG, LGFC, OAG, IGG, CIID,
<b>2. Problems in LG systems and processes, which require adjustment at the center to adjust/improve them:</b>				
i	Non alignment of Legal Framework at CG and LG level - Regulations 2006 for the Local Government inconsistent with amended PPDA Act and the LGFAR	Noncompliance to PPDA Act and PFM Act at LG level	Sector local government guidelines will be updated to address financial management and procurement risks.  The annual assessment measures compliance to procurement processes key areas.	AGO, PPDA, MoLG, LGFC, MoJCA

No.	Issue	Risk	Mitigation Measure	Responsible
	2007 inconsistent with the new PFM Act of 2015		<i>Under FINMAP or a similar program, local Government financial and accounting as well as procurement Regulations harmonized with national laws.</i>	
ii	The HLGs, schools and health units' plans and budgets are incomplete and do not include donor funding as well as for funds from Ministries that are not part of IPFs	Double accountability and duplication of resources	Adjust guidelines for schools and health units to prepare detailed budgets including revenue from all sources. Budget requirements include capturing donor resources allocated to facilities within the overall district budget. Annual Assessment monitors and incentivizes compliance to the adjusted budget guidelines.	MoH, MoES, MoFPED, MoLG, LGFC
iii	There have been substantial delays of 3 – 6 weeks from the start of the quarter to release of funds to cost centers (non-wage and development) as a result of the new warrant system. This requires LGs to enter warrants directly onto IFMIS. As the IFMIS is not installed in several districts and there is unreliable internet connectivity in others there are delays in warrant preparation by LGs.	Funds do not reach cost centers promptly creating funds	MoFPED will ensure that LGs have reasonable access to IFMIS sites or equivalent to process warrants, whilst the IFMIS is being rolled out by MoFPED and MoLG. NB: MoFPED is already in the process of establishing regional IFMIS centers. <i>In parallel to the Program, FINMAP will continue to roll out of IFMS and National Backbone to all districts</i>	AGO, NITAU  MoPS, MoLG, LGFC
<b>3. Awareness of local governments to implementing systems and processes which is likely to result in a lack of adherence to those systems</b>				
i	Guidelines (both Higher Local Government and Facility) are not communicated to the local governments/beneficiary institutions adequately.	Sector expenditures may not be used in line with national policies and guidance and LG needs	Disseminate revised grant and other relevant guidelines to districts/municipalities as well as school and health units. Develop a single online repository for guidance relating to LG transfers and related issues.	MoH, MoES, MoPS, MoLG, LGFC,
ii	Elected Leaders from 2016 General Elections have are not aware of PFM and grant guidelines	This poses risk of making decisions which are unlawful/not in line with guidelines	Develop/revise and disseminate standardized training manuals for orientation of councilors in their roles in budgeting, procurement and the transfer system.	MoFPED, MoES, MoPS, MoLG, LGFC,
iii	Statutory Oversight committees (DSCs, Contracts Committees, HUMCs, SMCs) not in place for checks and balances or not fully constituted and not well facilitated/funded	Lack of oversight resulting in increased absenteeism, delayed service delivery and no VfM	Annual Performance Assessment to verify presence of committees <i>PS/ST to approve replacement of CC members within four weeks of receiving request and proposed lists.</i>	MoFPED/PSST, MoES, MoPS, MoLG, LGFC,

## **Annex 6: Summary Environmental and Social Systems Assessment**

1. An Environmental and Social Systems Assessment (ESSA) supports the proposed Uganda Intergovernmental Fiscal Transfers Project under consideration for Program-for-Results (PforR) financing. For each proposed PforR operation, the World Bank requires a comprehensive assessment of the government systems in place for managing environmental and social effects (including benefits, impacts and risks) against the World Bank Policy, Program-for-Results Financing.<sup>21</sup> This Policy sets out core principles and key planning elements intended to ensure that PforR operations are designed and implemented in a manner that maximizes potential environmental and social benefits while avoiding, minimizing or otherwise mitigating environmental and social harm.

### **ESSA Methodology**

2. The Environmental and Social Systems Assessment (ESSA) is crucial to ensure that PforR operations are designed and implemented in a manner that maximizes potential environmental and social benefits. The ESSA considers to what degree program systems promote environmental and social sustainability, and avoid, minimize, or mitigate adverse impacts, and promote informed decision-making. The World Bank is responsible for assessing the Borrower's authority and organizational capacity and performance to date, to achieve the social and environmental objectives associated with the Program. An important part of the assessment is the determination of any weaknesses in client capacity or institutional arrangements to mitigate risks. If adequate arrangements are not yet in place or capacity is weak, the World Bank discusses with the Government what measures could be taken prior to and/or as part of implementation. This ESSA presents the current status of these discussions.

3. According to and as per the requirement of the World Bank procedures, this Environmental and Social Systems Assessment (ESSA) was undertaken by a World Bank team, but reflects considerable collaboration with relevant officials and technical staff members of IFTRP implementing agencies. It was also carried out in a participatory manner involving feedback and inputs from a number of key stakeholders, including national and county government. Following disclosure of the draft ESSA, a consultation meeting was held with national stakeholders on April 27, 2017. Feedback received from the consultation will be summarized in an annex and considered in the revised ESSA and PAP.

4. The assessment was carried out through a comprehensive review of relevant government policies, legislations, institutional roles, program procedures and an analysis of the extent these are consistent with World Bank policy. Field reviews and consultations with key informants from relevant national and local government authorities (where visits were made to approximately one-quarter of all districts) formed a crucial part of the methodology for undertaking the assessment. These focused on the practical implementation of social and environmental safeguards in local government projects, and placed special emphasis on the education and health sectors that are central to the PforR support. A summary of the field assessments is included as an annex.

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<sup>21</sup> <https://policies.worldbank.org/sites/ppf3/PPFDocuments/090224b082ff5e18.pdf>.

5. The findings of the assessment were used to inform options for the overall PAP with key measures to improve environmental and social management outcomes of the Program. The findings, conclusions, and opinions expressed in the ESSA are those of the World Bank. The recommendations contained in the analysis have been discussed through public consultations to be held at project appraisal and involving all stakeholders.

## **Findings**

### ***Overview of the Structure of Uganda's Environmental Systems***

#### *Environmental Assessment and Management*

- The ESSA documents that Uganda's legal, policy, and regulatory framework and existing national level systems for managing environmental impacts—both broadly and for the key sectors of education and health—are relatively robust. Systems for screening projects, ensuring that adequate environmental and social assessment are conducted for projects, for holding public consultations on projects and their impacts, and gathering feedback and complaints are fairly well developed. As noted in the field assessments, the quality of policy implementation on environmental assessment does vary at the local government level, however, and will be strengthened in the PAP.
- Uganda also has established regulations, guidelines and standards for waste management including health care wastes. Uganda also has a national policy for injection safety and health care waste management, a Health Care Waste Plan (HCWP 2012), and national guidelines for management of health care wastes from safe male circumcision procedures.
- National Environment Management Authority (NEMA) has developed sector guidelines for EIA development including sectors like health, which is one of the two key sectors for focus under the Program.
- NEMA has developed a user manual to guide Sector Working Groups, Agencies and Local Governments to appropriately budget for mainstreaming environmental issues in their respective plans. Unless this is properly done, the issues integrated in the plans will remain unattended to during implementation. As will be noted in this ESSA, this is a relevant factor for the Program.

#### *Conservation of Natural Habitats*

- Uganda has established policies, legal and regulatory framework as well as institutions, which protect natural habitats from degradation and conversion including Uganda Wildlife Act; National Forestry and Tree Planting Act; Public Health Act; Local Government Act; and Land Act.

#### *Workers and Public Health and Safety*

- The Occupational Health and Safety Act protects workers and public to occupational related hazards by requiring developers to safeguard the health and safety of workers and the public in the places of work.

### *Resources and Capacity*

- NEMA is the principal institution that has a significant national mandate to ensure environmental protection. NEMA, already have significant capacity to manage risks appropriately with a robust system for environmental assessment and management, which provides for screening of projects to determine the level of environmental analysis. Screening at the local level, however, is more significant for the UgIFT.
- There is a specific department in NEMA dedicated to environmental assessment and management with a pool of limited technical experts. NEMA has also gazetted a total of 375 environmental inspectors who undertake environmental inspections and monitoring on behalf of NEMA. Given the local implementation nature of this Program, however, the capabilities of District-level environmental officials are especially relevant.

### *Overview of the Structure of Uganda's Social Systems*

#### *Land Acquisition*

- The policy, legal and institutional framework in Uganda governing land acquisition and resettlement is fairly strong and compares well with the World Bank ESSA core principles. The Land Act, Land Acquisition Act, Uganda Land Commission Act and Local Government Act all address impacts associated with involuntary resettlement and provide for compensation for loss of assets based on replacement cost approach.
- The Constitution of Uganda also protects the rights of individuals to property ownership and only advocates for land acquisition when projects are for the public good. Livelihood restoration as a result of land acquisition is addressed by the Land policy.

#### *Grievance Redress*

- The Local Government Act and Local Council Courts Act establish Land Boards (LBs) and District Land Tribunals for grievance redress on land related issues at municipal and district levels.
- The Uganda Land Commission (ULC) mission is to effectively hold and manage all Government land and property thereon and resolve all historical land injustices as well as resettle persons displaced as a result of Government actions, natural disasters or any other cause through outright compensations or provision of alternative land.
- The Equal Opportunities Commission Act establishes the Equal Opportunity Commission (EOC) which plays a key role in grievance redress by providing an avenue and platform for Uganda citizens to do so. The EOC also has powers to hear and determine complaints by any person against any action, practice, usage, plan, policy program, tradition, culture or custom which amounts to discrimination, marginalization or undermines equal opportunity. The EOC has developed rules and regulations for lodging complaints on a matter of discrimination, marginalization, inequality or any act which undermines or impairs equal opportunities against a person or a group of persons.
- The Uganda Human Rights Commission The UHRC is Uganda's national human rights institution created by the Constitution, with mandate, amongst others, "to

investigate violations of human rights and to monitor government compliance with its human rights obligations detailed in the Constitution.”

### *Indigenous Peoples*

- The Constitution of Uganda recognizes the presence of indigenous people in Uganda and refers to them as “ethnic minority”. The Constitution offers no express protection for indigenous peoples but Article 32 places a mandatory duty on the state to take affirmative action in favor of groups who have been historically disadvantaged and discriminated against.
- Equal Opportunities Commission Act duly protects the rights of indigenous peoples in Uganda through its recognition of “ethnic minority” groups in Uganda and being cognizant of their marginalized status, and fulfilling its mandate to address discrimination and promote equal opportunities for all persons in Uganda irrespective of gender, age, physical ability, health status or geographical location; and to promote affirmative action in favor of marginalized groups.
- It is important to note that the Ik people (one of IPs in Uganda) have their first Member of Parliament in the 10th Ugandan Parliament in 2016.

### *Social Accountability and Transparency*

- Uganda’s decentralized system provides for social accountability and transparency. Participatory planning is the adopted approach by local governments where all stakeholders, beneficiaries, technical staff and donors come together to carry out analysis of the existing situation, determine the desired future, decide on appropriate action and implementation strategies, discuss and agree on roles and responsibilities and agree on appropriate time schedules and milestones. Planning begins at the community level through a bottom up approach.
- In Uganda’s decentralized system, the planning process is at sub-county level where the sub-county development committees collect and prioritize all sub-counties plans. The priorities of all the sub-counties are thereafter presented to the county development committee, which in turn prioritize the draft plans for onward transmission to the district development committee for deliberations. All the approved proposed plans are then compiled into the draft district development plan for onward transmission to the Ministry of Finance, Planning and Economic Development (MoFPED) for preparation of the district development plan.

### *Public Participation*

- To ensure that communities are empowered to take responsibility for their own health and well-being, and to participate actively in the management of their local services, the GoU has initiated a number of measures: (i) developed guidelines for community capacity building for effective participation in resource mobilization and in the monitoring of activities; (ii) promoted the establishment of sector committees (health, education, and so on) with an appropriate gender balance at each of the different levels of the local government system. In addition, the Local Government Act provides has several structures for ensuring accountability to the public and to sector stakeholders. To the general public, the decentralized system provides space for the participation of all districts and local authorities in the Annual Sector Assemblies. At these assemblies,

national- and district-level political leaders, national level CSOs working in the different sectors, the media, and development partners receive performance feedback about sector performance, and generate priorities for the district in the subsequent fiscal year.

#### *Affirmative Action*

- Uganda has different sets of laws, policies, guidelines, and administrative practices intended to end and correct the effects of discrimination on gender and marginalized groups. They include the National Gender Policy and Older People Policy, the National Youth Council Act, Vision 2025, the Poverty Eradication Action Plan (PEAP), the Social Development Sector Strategic Investment Plan, and the Equal Opportunities Commission.

### **Assessed Limitations for Local Resources and Capacity**

6. Although the structures for environmental and social accountability are well-established at the national level, the ESSA found weak or non-existent performance management systems at the local levels. The problem is somewhat more significant for social issues as contrasted with environmental issues. For example, just over half (that is, 15 of 26) of the visited Districts carry out screening of government-funded projects for environmental risks. The number of Districts that carry out screening for social risks is considerably less (that is, 3 of 26); in fact, being by far the exception rather than the rule. Oversight or supervision of such projects is also proportionally weaker than screening, and typically consists of desk reviews given the lack of transportation and other resources for field assessment. Districts have few resources and have received little guidance on how to provide effective supervision and feedback downstream in such a constrained situation.

### **Specific Environmental and Social Risks and Recommendations for Mitigation**

7. The ESSA concludes that the existing environmental and social management framework at the national level should, in theory, provide adequate means for reducing risks from program elements supported by the UgIFT. The investments supported by the PforR – including the rehabilitation and construction of additional primary/secondary schools and health clinics infrastructure – typically pose modest risk when screening and supervision is carried out correctly by national authorities. Nevertheless, in actual practice, such oversight is carried out by local authorities, and the ESSA identified potential issues related to the capacity of Local Governments to carry out nationally derived processes. These areas are summarized below, and considered in the options for inclusion under the PAP.

#### ***Social Risks***

8. Actual field experience in Uganda by World Bank staff found clear deficiencies in LG capacity, suggesting a comparatively higher risk for social considerations. These risks stem from the likelihood of influx of construction workers from larger urban centers into smaller subdivisions (Parishes and Sub counties) specifically targeted by the Program. Influx of workers is expected

given the general lack of local workers with the capability to carry out construction of facilities such as maternity and general wards, operating theatres, and other facilities in health clinics. Construction of some primary schools could also require influx of outside workers. Local communities often lack the means to absorb and manage the influx of such workers. Concerns include: Concerns include: (i) social conflicts (and over resources), (ii) the spread of HIV/AIDS, (iii) instances of GBV and Violence Against Children (VAC), and (iv) labor related issues, including Child Labor. Land acquisition and resettlement is not expected to pose significant risks given the small scale of investments and the likelihood of construction being carried out on existing facilities' footprints, though it is important that these processes are properly tracked.

9. A number of these civil works will also be undertaken in communities where consultations are often lacking during project preparation, and/or communities who lack access to adequate grievance redress mechanisms. The World Bank is taking special precautions on current and proposed investments in Uganda where several World Bank projects have recently either been suspended or cancelled because of these types of violations being associated with contractors hired to perform civil works in rural areas. While the scale of those investments (and consequent risks) is considerably greater than in the case of the UgIFT, appropriate due diligence is needed and included. As the field exercises have revealed important deficiencies in terms of availability and capacity (technical and material) of relevant District social staff, the Government has agreed to mitigation measures in the PAP.

### *Environmental Risks*

10. The assessment establishes that environmental risks associated with the rehabilitation and construction of primary schools and hundreds of classrooms and health clinic<sup>22</sup> infrastructure— are typically modest when screening and supervision is carried out correctly. Unfortunately, in almost half of surveyed Districts, good screening is not carried out, and in the majority of Districts, staff and material shortages hamper both screening and especially supervision. There have been advances in health waste management in the country, and some Districts are making good progress whereas the majority have been hampered by budget or other constraints. As the field exercises have revealed important deficiencies in terms of availability and capacity (technical and material) of relevant District environmental staff, the Government has agreed to mitigation measures in the program action plan.

### *Recommendations*

11. **Mitigation measures will build on the Program's overall approach for improving efficiency and developing capacity of local governments, and will be elaborated in the POM.** The initial LG performance assessment manual and approach (now being finalized), includes criteria to assess and track local government adherence to basic environmental and social management measures, including whether sufficient staff are in place (numbers and qualifications), the adequacy of budget resources, whether/how extensive is screening of projects

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<sup>22</sup> The education and health development grants will focus on construction and rehabilitation of classrooms, teacher houses, sanitation facilities, dormitories, libraries, maternity wards, general wards, operating theatres, mortuaries, etc.



for environmental and social risk, and how supervision is carried out. Valuable e-linkages to existing sectoral guidelines and other resources will be provided. This will be the first time that such analyses are carried out across the country, and will provide critical information for improving processes systemically.

**12. The Government has agreed to update procedures, guidelines and manuals to more effectively tailor solutions to mitigate environmental and social risks, and add staff to oversee the process through implementation.** Targeted technical support will be provided by central government authorities in areas of underperformance – both thematically and for specific LGs with performance issues. The effectiveness of performance improvement on environmental and social issues will be tracked annually, and inform the need for additional guidance and implementation support. Improved guidelines could address:

- Sector investments in health and education -- e.g.: disseminating improved social and environmental screening forms (examples are included in an ESSA annex), standardized ESMP and contract/bid documents, possible exclusionary lists (e.g. as needed to address involuntary resettlement), provisions to mitigate labor influx issues and labor disputes (examples are included in an ESSA annex), fecal disposal/sanitation measures, roles of SMCs and HMCs in overseeing construction, etc.
- Facility-level operational guidelines (school, health facility) – e.g. health waste management; education and outreach for grievance redress; roles of SMCs and HMCs in monitoring, etc.
- Sector budget requirements – e.g.: determining necessary numbers of staff and budget resources; filling shortfalls through hiring, training, capacity building, etc.

**13. Further guidelines development and implementation could also be informed through thematic performance improvement plans.** Thereafter, the annual assessment of institutional performance would be adjusted to reflect these improved guidelines. Coordination and implementation support will also be strengthened at the national level; for example, assigning specific staff or hiring consultants with the requisite social and environmental expertise in relevant sector ministries. Such staff would be critical for overseeing and aggregating substantive information on the local government performance assessment and improvement process, and advising on both thematic and local performance and improvement efforts. These steps – including detailed evaluative factors - will be elaborated in the POM.

**14. In the context of the Program, grievance redress will be based on the Government's own systems.** In order to ensure that potentially affected persons do not have to travel long distances or incur any costs during grievance processes, the initial point of intake grievances for education investments is envisaged to be existing SMCs which provide oversight of school management and represent local communities' and parents' interests in school facilities. For health investments, HMCs whose mandate includes fostering improved communication with the public and encouraging community participation in health activities within and outside the unit, would serve that purpose. However, because members of these committees are not specifically trained to address infrastructure related environmental and social issues, their guidelines would be strengthened as part of the Program to allow them to manage a wider range of complaints and as necessary, channel them to the appropriate and established local government and national systems for grievance redress, which include respective subdivisions leadership/councils and relevant

District/Sub-county civil servants (LCs, Probation Officers, Labor Officers, District Environmental Officers, and the Ugandan Police) that are better equipped to handle cases of GBV, VAC, and labor related issues. Moreover, these committees could play an important role in sensitizing communities and workers to these risks - for instance, Health Management Units could support contractors in developing HIV/AIDS sensitization/prevention activities for workers and community members while School Management Committees could involve teachers in sensitizing students and parents to these risks but also in monitoring worker/student interactions. In addition, from 2018/19 onwards, guidelines will also require facilities to put up notices outlining the channels available to beneficiaries for grievance redress. These will be specified in the POM and dissemination and compliance will be incentivized through the assessment process.

## Annex 7: Program Action Plan

Action Description	DLI*	Due Date	Responsible Party	Completion Measurement**
<b>I - Addressing technical risks of managing transfers and systems at the national level</b>				
(a) The Annual Budget allocations and MTEF are consistent with the agreed Medium Term Plan for increasing budget allocations to the transfers which is set out in the POM.	<input checked="" type="checkbox"/>	June 15 Annually	MoFPED	The Annual Budget and MTEF allocations are consistent with the MTP.
(b) Reconsideration of Medium Term Plan for Increasing budget allocations to the transfers in the POM and MTEF allocations to the transfers if (i) CPI inflation is above 10 percent in any fiscal year; or (ii) GDP growth rate for two subsequent quarters is 2 percentage points below the average GDP growth rate for 3 preceding years; or (iii) projected US\$ value at the current exchange rate of the increase in allocation to conditional grants for education and health for the next year is 20 percent higher than its value projected in the PAD	<input type="checkbox"/>	January 31 Annually if applicable	MoFPED	MTEF allocations changed following agreement of revisions between WB and GoU.
(c) Adherence to the revised formulae and phase in plan in the budget allocations and releases	<input checked="" type="checkbox"/>	June 15 Annually	MoFPED	Formula phase in plan implemented as measured by DLIs 1 and 2.
(d) Implementation of a process ensuring consistency of the data used for implementation of the redesigned grants	<input type="checkbox"/>	March 31 Annually	MoFPED	Formulae variables and cost center lists signed off by the responsible parties using process set out in POM.
(e) Renegotiation of targets if the combination of formulae, equity targets and medium term plan to uplift transfers become misaligned which significantly increases the cost of achieving equity targets.	<input type="checkbox"/>	December 31 Annually	MoFPED	Agreed targets following renegotiation.
(f) Implementation of the institutional strengthening measures in Central Government to manage transfers system, make transfers on time and to communicate effectively with LGs	<input type="checkbox"/>	December 31, 2018	MoFPED MoLG MoH MoES	Institutional strengthening measures as specified in the POM implemented.
<b>II – Addressing institutional, fiduciary, environmental and social risks at the local level</b>				
(a) Annual performance assessment takes place according to agreed rules and covers technical, fiduciary, environmental and social risks	<input checked="" type="checkbox"/>	January 31 Annually	OPM	Annual assessment takes place (DLI 3) and validated in line with process in the POM
(b) Updating and dissemination of manuals and procedures relating to transfers, procurement, financial management and LG staffing to cater for technical, fiduciary, environmental and social risks.	<input type="checkbox"/>	January 31, 2018	MoFPED	Specified manuals and guidelines adjusted taken into account issues specified in the POM

Action Description	DLI*	Due Date	Responsible Party	Completion Measurement**
(c) Implementation of a Process for Targeted Performance Improvement.	<input checked="" type="checkbox"/>	June 30 Annually	MoLG, MoH, MoES	Local Government and Thematic Performance Improvement Plans implemented as measured in DLI3
(d) Two thematic areas for targeted performance improvement in 2018/19 address fiduciary and social and environmental risks identified during the first round of LG performance assessments and help to strengthen capacity of LGs to implement the related updated guidelines	<input type="checkbox"/>	June 30, 2019	MoLG, MoH, MoES	Thematic Performance Improvement areas are chosen accordingly

## **Annex 8: Implementation Support Plan**

1. The Implementation Support Plan (ISP) is based on the implementation support guidelines for PforR operations, adopted to the design and risk profile of UgIFT. The GoU is responsible for the Program's overall implementation, including its technical aspects. The World Bank task team will provide implementation support on: (i) implementation progress and achievement of Program activities and results; (ii) addressing implementation challenges on the capacity building activities; (iii) implementation of the PAP, (iv) achievement of DLIs; (iv) monitoring of system's performance to ensure their continuing adequacy through Program monitoring reports, audit reports and field visits; (v) monitoring of changes in risks to the Program and compliance with legal agreements.

2. UgIFT has generally robust systems, procedures and implementation arrangements. Implementation support will pay special attention to (i) update and implementation of the guidelines for use of four grants to mitigate technical, fiduciary, social and environmental risks identified during the preparation of the Program; (ii) update of the assessment manual to take into account both assessment of service delivery results and updated procedures in grant manuals; (iii) ensuring implementation of the phase in plans and formulae for the four grants; (iv) the process of the performance assessments and of the annual review of the performance assessments results; and (v) detailed design and implementation of the Program of targeted performance improvement for underperforming local governments.

3. Considering the additional efforts to be made at the Program implementation level to put in place the significantly revised guidelines and assessment manuals, substantive supervision support from the World Bank is expected for the first year of Program implementation. First round of performance assessments and of support to LGs with weak capacity will bring additional supervision challenges in the areas identified in the PAP. The World Bank's task team is well positioned to fully support the timely implementation of the Program. The team is well staffed with two Sr. Task Team Leaders and a technical specialist to look after all activities of the Program. In addition, sufficient fiduciary support is available on procurement, financial management, social and environmental safeguards. To ensure timely implementation and proper correction action, the first year of implementation will have four supervision missions. From the second year, two implementation support missions will take place. In addition, supervision will take place on a continuous basis, and team members will be mobilized at any time as needed.

4. Key to the World Bank's effective implementation support will be its coordination and timing, aligned with critical points in the planning and verification of results for disbursement requests to the World Bank. During the first year of implementation, the World Bank's support will focus on strengthening the Program systems and institutional activities necessary to achieve the DLIs. The first implementation support mission will take place right after effectiveness to provide direct and timely feedback. It is expected that first year DLIs will be achieved, but these will be reviewed during the initial supervision mission. The implementation support missions during the first year of implementation will include the full technical and fiduciary teams. Subsequent implementation support mission will have a stronger emphasis on verification/M&E skills, capacity development, and technical implementation expertise, varying according the actual needs as specified in the PAP. An outline of the indicative implementation support required is shown in Tables 9.1 and 9.2 below:

**Table 9.1. Main Focus of Implementation Support**

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Resource Estimate</b>	<b>Partner Role</b>
First twelve months	<p>Monitor and assist in updating and implementing the guidelines for use of four grants to mitigate technical, fiduciary, social and environmental risks;</p> <p>Monitor and assist in updating the performance assessment manual to take into account both assessment of service delivery results and updated procedures in grant manuals;</p> <p>Monitor implementation, review, and follow up to the performance assessments</p> <p>PAP implementation</p> <p>Monitor completion of systems development</p> <p>Monitor flow fund mechanism and implementation arrangements</p> <p>Monitor progress on achievement of PDO</p>	<p>Intergovernmental finance;</p> <p>institutional/governance;</p> <p>financial management;</p> <p>procurement; social and environmental; M&amp;E.</p>	<p>4 implementation support missions</p> <p>Core team: 12 weeks</p> <p>Support staff: 6 weeks</p> <p><u>Total 18 weeks for first 12 months</u></p>	N/A
12-48 months	<p>Monitor overall project implementation</p> <p>Monitor implementation of PAP</p> <p>Verification/approval of DLIs</p> <p>Monitor progress on achievement of PDO</p> <p>Conduct MTR</p>	<p>Intergovernmental finance;</p> <p>institutional/governance;</p> <p>financial management;</p> <p>procurement; social and environmental; M&amp;E.</p>	<p>2 implementation support missions</p> <p>Core team: 32 weeks</p> <p>Support staff: 24 weeks</p> <p><u>Total 56 weeks over 48 months</u></p>	N/A

**Table 9.2. Task Team Skills Mix Requirements for Implementation Support**

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
Sr. Economist	8	4	2 trips from Y2
Sr. Public Sector Specialist	8	4	2 trips from Y2
Sr. Financial Management specialist	4	Kampala-based	
Sr. Institutional Specialist	4	Kampala-based	
Sr. Procurement Specialist	2	Kampala-based	
Sr. Social Specialist	2	Kampala-based	
r. Environmental Specialist	2	1	

## Annex 9: Districts and Municipalities in Uganda

1. The UgIFT program will support health and education development and NWR grants. These grants are appropriated under Local Government Votes. The Local Government Votes are District Councils in rural areas and Municipal Councils in Urban areas.<sup>23</sup> In Financial Year 2017/18 there will be 121 district votes and 41 municipal votes totaling 162 votes.
2. There are a lot of similarities between the district and municipal LGs. Albeit customized to rural and urban peculiarities both have mandates to deliver health and education services. They both have elected councils that have the powers to: (i) develop and approve plans and budgets integrating plans of lower local councils; (ii) mobilize own source revenues; and (iii) control human resources. However, there are cases where the municipal councils rely on the services of the districts especially in regard to statutory bodies notably the Local Government Public Accounts Committee and District Service Commission.
3. On average, districts have a 150 percent larger population than municipalities, but considerable variation exists. The largest district has a 20 times larger population than the smallest district, the largest municipality an almost 30 times larger population than the smallest. This highlights the importance of including the size of the population as a variable in education and health grant allocation formulae.
4. Socioeconomic conditions vary to a similar degree, with the poverty headcount ranging from 3 percent of the population to 93 percent, infant mortality from 38 to 88, and enrolment rates from 7 percent to 151 percent (some Local Governments attract considerable migration to their schools).
5. Service delivery quality and access is not distributed evenly across Local Governments, entrenching socio-economic differences. The population per health centers ranges from 105,800 to 6,863, and the percentage of students passing primary school in the first three divisions ranges from 45 percent to 98 percent. These variances are summarized in the Table 12.1.

**Table 12.1. Variances in Socioeconomic Conditions in Uganda's Local Governments**

Variable	District Council			Municipal Council		
	Highest	Lowest	Average	Highest	Lowest	Average
Total Population	1,151,100	60,000	262,294	437,100	15,100	101,159
Land Area (sq km)	5887	188	1485	295	4	69
Population Density (pop/sq km)	1,258	26	268	17,538	99	3,427
Poverty head count (% of pop)	0.925	0.065	0.372	0.808	0.030	0.234
Infant Mortality	88	47	66	72	38	55
Total enrolment	259,380	5,050	61,758	38,539	2,114	16,182
Enrolment as a percentage of population of school-going age	108%	11%	61%	151%	7%	54%
Percentage of PLE Candidates Passing in Divisions 1 to 3	88%	45%	68%	98%	56%	80%
Population per Health Centre III, IV or Hospital	61,475	6,863	23,133	105,800	11,200	36,273

Source: OTIMS.

<sup>23</sup> Under the district and municipalities, there are lower local governments being sub-counties, town councils and municipal divisions. However, none of the grants being supported under the UgIFT program will flow to these LLGs.

## Annex 10: Performance-based Grants to LGs: International Experiences<sup>24</sup>

### General Patterns and Common Issues

1. The overall rationale for a performance-based grants (PBGs) to LGs is that it provides tangible incentives for LGs to improve their performance by linking their access to grants and/or the amounts disbursed to their performance in pre-determined areas. It supplements other grant objectives and complements other incentive frameworks, for example, salary and career incentives.
2. Looking at 15 low and middle-income countries<sup>25</sup> in which various PBG approaches have been used, a number of patterns and issues emerge, among others:
  - a. Although a few countries have tried (or are in the process of trying) PBGSs that apply to specific sectors and earmarked grants, the majority have applied PBG principles to multi-purpose capital (or “developmental”) grants, and mostly relied upon generic indicators (for example, planning, financial management, fiscal effort, transparency, and so on), rather than output-based indicators of service delivery, to assess local government performance;
  - b. The grants to which PBGSs apply have been of varying size, but have usually been relatively modest (averaging around US\$1–4 per capita per year). Nonetheless, the size of the grants appears to have been sufficient to generate adequate incentives;
  - c. All countries have included a capacity-building component in their PBGS, with a tendency over time to move toward the allocation of CB grants to LGs and more demand-driven CB approaches;
  - d. The use of Minimum Conditions (MCs) has been near-universal, thus providing LGs with incentives to demonstrate compliance with indicators that point toward a basic level of absorptive capacity. This, in turn, implies that basic fiduciary and other safeguards are in place before grants are made available to LGs. In almost all cases, MCs have been derived from statutory requirements for LGs;
  - e. A majority of the countries included in the survey use Performance Measures (PMs) to assess qualitative differences in performance – with individual LG scores resulting in alterations to their grant allocations. LG performance against PMs is usually measured through a “balanced” scoring system (which encourages better performance across the board, rather than just in specific areas), with a few countries measuring individual LG performance relative to that of other LGs. PMs have tended to focus on planning and public financial-management processes, improvements in LG accountability and transparency;
  - f. Most PBGs have been progressively refined over time, with more MC/PM indicators being introduced and with modifications to budgetary “consequences” taking place (in some countries) to ensure that LGs access minimum levels of funding regardless of their performance, but ideally accompanied by more intensive mentoring and supervision;

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<sup>24</sup> Adopted from Steffensen, Jesper. 2010. *Performance-Based Grant Systems – Concept and International Experiences*. UNCDF.

<sup>25</sup> These include Bangladesh, Bhutan, Ghana, Indonesia, East Timor, Kenya, Lao PDR, Mali, Nepal, Pakistan, Philippines, Sierra Leone, Solomon Islands, Tanzania, and Uganda



- g. Although most countries use fairly robust and relatively intensive performance assessment processes (detailed assessment manuals, outsourced assessment teams, training of assessors, and so on), some have sought to “internalize” the process by making assessments into “in-house” functions (with the risk of forgoing impartiality);
- h. Over time, there has been a tendency for governments to tie their own budgetary allocations to PBGS procedures and for the share of development-partner (DP) funding to decrease – signifying an important degree of national buy-in;
- i. In several countries, PBGSs (precisely because of the safeguards that they establish) have helped encourage donors to opt for direct budgetary support and sector-wide approaches (SWAs) as a way of financing decentralized service delivery.

### **Lessons Learned: Achievements and Benefits**

3. Although many PBGSs have been in place for only a few years, there is considerable evidence that the incentives they provide have resulted in genuine improvements in LG performance, especially in core administrative and financial areas. Major areas in which LG performance has improved include:

- a. Core administrative functioning and compliance with basic statutory requirements, both of which are invariably used as indicators for MCs;
- b. Public financial management by LGs appears to have improved sharply following the introduction of PBGSs, which use indicators such as quality of the planning process, compliance with procurement regulations, timely accounting, audit processes, outcomes and responses, and so on to measure LG performance;
- c. Where improvements in fiscal effort and increased local financial contributions have been included as indicators of LG performance, there is evidence (in some countries) that LG own-source revenues have increased – although this has sometimes been undermined by inconsistent changes in the revenues assigned to LGs;
- d. LG transparency and accountability (both of which are invariably measured – through a variety of indicators – by MCs and PMs) also seem to have improved in many cases, enhancing interface between LGs and citizens, informing dialogue, and improving downward accountability. Horizontal accountability (between local civil servants and elected officials) also appears to have improved as a result of the introduction of PBGSs, which provide elected officials with a good indication of how well (or badly) LG employees have been performing. Finally, upward accountability has been strengthened through PBGSs, which provide incentives for LGs to comply with national laws and regulations, to report on a timelier basis, and so on, and which provide opportunities for greater dialogue between the central and local levels;
- e. Incentives established by PBGSs have also led to improvements in the way that LGs handle cross-cutting issues such as gender, social inclusion, poverty targeting and the environment. Such issues have often been embedded in the performance indicators used by PBGSs – and have thus contributed to greater sensitivity toward them by LGs;
- f. PBGSs, by design, can be powerful tools for making capacity-building (CB) more effective and efficient. Firstly, performance assessments help in identifying the areas within which LG

performance is weak, thus enabling CB activities to be better targeted. Secondly, the linkages between performance and grants that are an integral part of any PBG provide real incentives for LG officials to apply their acquired skills and knowledge – and thus improve performance. Finally, and when combined with CB grants, the PBG approach provides LGs with the resources to procure CB services and facilities on a demand-driven basis – which enables each LG to meet its specific (rather than generic) needs;

g. There is considerable evidence to the effect that PBGs facilitate greater coordination between and among development partners – the safeguards associated with PBGs allow DPs to more easily enter into basket-funding arrangements, which may evolve into genuine “sector” budget support for decentralization (using SWAps). In addition, PBGs often provide an entry point for wider decentralization reform processes;

h. Although it is early days yet, there are indications that the use of a PBGs usually leads to positive infrastructure and service-delivery outputs – in terms of allocative efficiencies, better implementation, cost efficiency and sustainability. Underlying these outcomes are two key factors – the extent to which a PBGs (through the safeguards that it ensures) encourages Central Government and DPs to provide discretionary grants to LGs (thereby fostering local-level prioritization and greater allocative efficiencies) and the incentives provided for improved planning, budgeting & costing, design, contracting, project implementation & supervision, and operations and maintenance.

4. Despite the evidence for these achievements and benefits, it remains important to bear in mind that most PBGs are still in the early stages of implementation – and that many other factors may also be at play.

### **Lessons Learned: Challenges and Limitations**

5. Experience has shown that there are a number of challenges for and limitations to performance-based funding systems for LGs, among others:

- a. Because of their tendency to focus on “process” and “intermediate output” indicators, PBGs cannot directly measure service-delivery outcomes (such as poverty reduction); to do so would require considerably more sophisticated and costly assessment methods. Moreover, measuring outcomes is highly problematic given attributional problems. In addition, measuring the outcomes of local service delivery may also be antithetical to the discretionary nature of multi-sector block grants by “steering” local decisions in certain directions, rather than leaving priority setting to locally accountable institutions. Finally, value-for-money audits and other reviews have shown a clear link between improvements in LG processes (PFM, governance, and so on) and service delivery;
- b. A range of external factors can also dilute the impact of PBGs and impede their implementation. Such factors include severe conflict, very weak “horizontal” controls over LG staff, poorly defined expenditure assignments (which blur LG accountabilities), inappropriate or inadequate revenue assignments (which constrain LG resource mobilization), significant levels of parallel funds which are not tied to performance (thus reducing the leverage exerted by PBG-modulated grants), delays in disbursements, and so on. An overwhelming focus on the technical aspects related to PBGS design runs the risk of overlooking such fundamental challenges and reform issues;

- c. Implementation of PBG-type arrangements in some countries has also run into difficulties associated with weak management capacities at the central level, resulting in delays and uncertainties. Although this is by no means unique to PBG type reforms, it is particularly challenging for them as they often require more robust institutional and support arrangements than do other, simpler, grant systems;
  - d. A major challenge faced in some countries has been the lack of political will to implement the consequences of poor LG performance – which usually take the form of funds being withheld or cut back. Political pressures from LGs often weaken the resolve of central-level officials or politicians to follow through with sanctions or funding reductions – and this can seriously compromise the integrity of the system.
6. While measures can be taken to make politically tough decisions more palatable, ultimately central government needs to discipline itself here.
- a. Designing the assessment methodology (indicators, scoring system) requires careful thought. Selecting the wrong indicators, for example, can be unfair (when they measure actions beyond the control of LGs) or led to perverse outcomes (when they encourage LGs to focus on certain things but not others);
  - b. Ensuring that the assessment process and its results are of high quality is also a challenge common to PBGs. The process needs to be seen (by all stakeholders) as credible and impartial if the PBG incentive structure is to function properly.