



1. Project Data:		Date Posted : 09/30/2008	
PROJ ID : P077477		Appraisal	Actual
Project Name : Second Local Government Development Project	Project Costs (US\$M):	165	165
Country: Uganda	Loan/Credit (US\$M):	125	125
Sector Board : PS	Cofinancing (US\$M):	40	40
Sector(s): General public administration sector (40%) Primary education (20%) General water sanitation and flood protection sector (20%) Roads and highways (15%) Health (5%)			
Theme(s): Municipal finance (25% - P) Municipal governance and institution building (25% - P) Decentralization (24% - P) Access to urban services and housing (13% - S) Rural services and infrastructure (13% - S)			
L/C Number: C3773; CH041			
	Board Approval Date :		05/29/2003
Partners involved : Danish International Development Assistance (DANIDA); Austria; Ireland; and Netherlands.	Closing Date :	06/30/2007	12/31/2007
Evaluator :	Panel Reviewer :	Group Manager :	Group:
Kavita Mathur	Peter Nigel Freeman	Monika Huppi	IEGSG

2. Project Objectives and Components:

a. Objectives:

The objective of the Project was to improve the Local Government (LG) institutional performance for sustainable, decentralized service delivery .

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The project had five components:

Support for the Decentralization Process (appraisal estimate US\$23.8 million, actual cost US\$33.6 million). This component supported the following sub-activities: (i) Fiscal Decentralization Strategy (FDS) implementation and tools to support decentralization of the development budget; (ii) institutional structure surrounding decentralization; (iii) sector issues related to decentralization, (iv) formulating and implementing a national LG capacity building strategy; (v) strengthening Local Government (LG) human resource development function, (vi) audit of the accounts of Lower Local Governments (LLGs); (vii) procurement capacity building at the Higher Local Government (HLG), and (viii) local financial management.

Local Development Service Delivery (appraisal estimate US\$107.5 million, actual cost US\$118.8 million)- This component comprised a non-sectoral conditional grant (the Local Development Grant - LDG) distributed on a formula basis to all local authorities in Uganda for investment in local infrastructure in accordance with local needs as determined through local planning and budgeting processes. Although all local authorities were eligible to receive the LDG funding, actual access was determined by capacity, accountability, and performance conditionalities which were designed to incentivise improvements in sustainable service delivery at the local level.

Local Government Capacity Building (appraisal estimate US\$15 million, actual cost US\$14.7 million)- This component provided capacity building grants to LGs aimed at increasing the quality of training and to help establish a national system of standardized training modules recognized by all stakeholders.

Local Government Revenue Enhancement (appraisal estimate US\$11.9 million, actual cost US\$8.1 million)- This component provided support to enhance the capacity of LGs to administer their own sources of revenue in order to achieve and sustain acceptable levels of service delivery. It had five sub-components namely: (i) strengthening local revenue policies and legislation, (ii) training of politicians and officials, (iii) strengthening local revenue systems, (iv) extension of property tax system, and (v) monitoring local government revenues.

Support to Project Implementation (appraisal estimate US\$6.8 million, actual cost US\$6.5 million)- This component supported the overall coordination, implementation, monitoring and evaluation and auditing of the project.

Revised Components : The project components were not revised.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The closing date of the project was extended from December 31, 2006 to December 31, 2007 to allow for the disbursement of the Local Development Grant (LDG) for the fourth year. The credit was fully disbursed and the Borrower contribution was US\$ 14.88 million, slightly higher than the appraisal commitment of US\$ 14.8 million.

3. Relevance of Objectives & Design:

The project was designed to maintain the momentum of reforms and institution building efforts carried out under the First Local Government Development Project (LGDP I). During the mid term review of LGDP I, it was found that LGs still lacked the capacity to adequately respond to and benefit from the originally planned Poverty Reduction Support Credit (PRSC) which focussed on decentralized service delivery envisioned in the forthcoming Country Assistance Strategy. It was therefore agreed that a follow-on effort of LGDP II would provide the bridge between LGDP I and the decentralization PRSC. The project objectives are relevant and consistent with the current Uganda Country Assistance Strategy (CAS). The project was designed to support one of the pillars of the Government strategy for economic transformation spelled out in the Poverty Eradication Action Plan (PEAP) 2004 - 2007, namely ensuring good governance, including improvement in public service delivery and decentralization. Overall, relevance was high.

4. Achievement of Objectives (Efficacy):

To improve the Local Government institutional performance for sustainable, decentralized service delivery : rated **Substantial**.

- The project financed the first four Joint Annual Reviews of Decentralization which have resulted in a number of policy reforms - revision of the Local Government Act, the Local Government Finance and Accounting Regulation, the Town and Country Planning Act, and the Local Government (Rating) Act). Also, these annual reviews led to the establishment of a Decentralization Sector Working Group and the development partners pooling their resources into a basket to support the implementation of the Local Government Sector Investment Plan.
- All the Higher Local Governments had good quality three year development plans linked to the budget.

- The annual assessment of Local Governments (with inbuilt incentives and sanctions mechanism) has improved Local Governments level of compliance with laws and regulations governing their operations. Full compliance by Higher Local Governments (HLG) increased from 29% (16 HLG) in 2003 to 59% (33 HLG) by 2006.
- A Local Government (LG) Capacity Building Policy Committee chaired by the Ministry of Local Government was established to guide the process of LG capacity building. The Ministry of Local Government established an in-house Capacity Building Unit aimed at providing support to all LGs in the formulation of their own Capacity Building Needs Assessments and Capacity Building Plans.
- Structural plans for 93 urban councils were prepared and 40% of the district and urban councils recruited Physical Planners.
- A total of 31,832 sub-projects were implemented - the Local Development Grant were used by LGs to invest in roads (39%), education (19%), agriculture extension (15%), health (13%), in water and sanitation (10%), construction of public administration buildings (2%), and solid waste management (1%). These investments were in accordance with the Poverty Eradication Action Plan and national strategy.
- The project strengthened local revenue policies, legislation, and systems, trained Local Government officials in revenue mobilization, extended property rates systems to cover all Local Governments (both rural and urban). However, with the abolition of two major sources of revenue for Local Government (Graduated Tax and Rates by owner-occupiers), progress was adversely affected in FY 2005/6. The Government compensated Local Governments through direct transfers from treasury and approved two new tax measures (Local Service Tax and Hotel tax) to replace the Graduated Tax.

5. Efficiency (not applicable to DPLs):

No ERR/FRR was calculated at appraisal and completion. The ICR notes that the sub-projects implemented under the project were more cost effective compared to those under the First Local Government Development Project (the TTL clarified that the projects were comparable in size). It states that the average cost of the sub-projects financed under the project is 88% of the average cost of sub-projects implemented under previous project (even without accounting for inflation) except for education and health sub-projects which were higher (110%). This is because under the project, Local Governments were asked to ensure completeness of investments in the education and health sector, in terms of other complementary infrastructure, to make them more functional.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Based on high relevance and substantial achievement of the project development objective with only minor shortcomings, the overall outcome is rated as satisfactory.

a. Outcome Rating : Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The Government of Uganda has mainstreamed the Local Development Grant and the Capacity Building Grant into its national budget which will ensure sustainability of these grants and it is an indication of the level of seriousness and commitment from government. However, the risk to Development Outcome is rated moderate due to the following reasons: (a) There is uncertainty with regard to Local Government own-source revenues. At project closing, the proposed Local Service Tax and the Hotel Tax Bills were before Parliament. There is commitment at the highest political level however to see that these measures become effective by July 2008; and (b) Budgetary realities of making newly created districts effective are quite complex and the creation of new districts deflects resources, both human and financial, away from service delivery to administrative costs.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

Preparation benefited from the experiences and the lessons learnt from the first Local Government Development Project. The Bank engaged all the stakeholders (government, development partners and Local Governments) during the design of the project and the project development objective and the key performance

indicators were discussed and agreed to by Government . The Bank's supervision was satisfactory and the Bank was proactive in solving emerging issues . For example when the Government of Uganda abolished the Graduated Tax the Bank team addressed this problem by : (a) highlighting the need for adequate compensation of Local Governments by Central Government for the loss of the Graduated Tax revenue (which was duly met by government; (b) preparing a note which assisted government to identify alternative own revenue sources to replace the Graduated Tax; and (iii) supporting the Government request to use part of the credit to facilitate Local Governments to improve their revenue collection efficiency from their own revenue sources .

a. Ensuring Quality -at-Entry:Satisfactory

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

The Government performance was satisfactory . All legal covenants were met and maintained by the government . For the last two years of the project the Government fully funded the Local Development Grants and the Capacity Building Grants. These grants have become part of the national budget and adequate funding provided for in the Medium Term Expenditure Framework for the next three years . The functions of the Project Coordination Unit have been mainstreamed and are being performed by civil servants of the Ministry of Local Government . Although the Graduated Tax was abolished, rates on owner occupied residential houses were exempted and 24 new districts were created, the Government demonstrated its commitment to ensure project success by compensating Local Governments for the revenue loss due to abolition of Graduated Tax, approving two new tax measures (Local Service Tax and Hotel tax) to replace the Graduated Tax and assisting Local Governments to update their valuation rolls .

The performance of Local Governments as the implementing agency for the grants was satisfactory . Investments were consistent with the Governments Poverty Eradication Action Plan . The performance of the Ministry of the Local Government was satisfactory . The Ministry ensured that the grants were transferred on a timely basis to the Local Governments, funds were not diverted and the necessary policy reforms such as the restructuring of the Local Governments, identification of new taxes for Local Governments, support for urban planning, and support to update Local Governments valuations rolls were achieved .

a. Government Performance :Satisfactory

b. Implementing Agency Performance :Satisfactory

c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

The design of M&E is satisfactory as the project aimed at supporting the M&E system developed under LGDP I through staff training for M&E. Key performance indicators included in the PAD log frame were : (i) at least 75% of the Local Governments with a three year rolling Development Plan, (ii) at least 75% of Higher Local Governments submitted final accounts on time to the office of the Auditor General, and (iii) at least 35% of LGs registering 20% increase or more in own revenue (taxes, user charges and fees) from baseline year 2002/03.

M&E Implementation is satisfactory - the project assisted in establishing and strengthening M&E through :

(a) Upgrading, roll out and implementation of the Local Government Information and Communications System (LOGICS) which was designed and piloted during previous project .

(b) Development, integration and piloting of a financial information module which allows LGs to report on expenditures and revenues . The expanded system is called LOGICS Plus and will be rolled out during the ongoing Local Government Management and Service Delivery Project (FY 08) to all HLGs.

(c) Local Government performance assessment by a team consisting of officials from the Ministry of Local Government, sector ministries and a private contractor for quality assurance . The annual assessment was initially conducted with the help from the Project Coordination Unit, but by FY2005/06, Ministry of Local Government's Inspectorate Department had assumed full responsibility.

(d) "Value for money" audit.

The "value for money" audit conducted on a sample of 1,083 subprojects (out of the total of 8,204) shows that 60%

of the sampled sub-projects had best/good value for money. About 31% had fair value for money and only 9% had poor value for money. The audit concluded that those projects which had fair/poor value for money exhibited weakness either in their planning, procurement, supervision, documentation, and/or hand-over/commissioning resulting, in some cases, in significant costs over-runs and/or defects. These findings provided valuable feedback for further strengthening of policy reforms and support to Local Governments to enhance their capacity to provide quality services to the population. M&E Utilization is therefore satisfactory.

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The project triggered two safeguards, relating to environmental assessment (category B rating) and involuntary resettlement. An Environmental Assessment and Social Management Framework consistent with the Bank Safeguard policies and Laws in Uganda was prepared and disclosed to the public in March 2003. At the same time a Resettlement Policy Framework was also prepared and disclosed. The ICR notes that the Local Governments followed adequate environmental screening during sub-project preparation. However, implementation of environmental mitigation measures was inadequate. At project closing the Ministry of Local Government guidelines required Local Governments to include funding for environmental mitigation measures in the implementation contracts.

Although OP/BP 4.12 on involuntary resettlement was triggered at appraisal given the open nature of likely investment by the Local Governments, the Region comments (dated 09/15/2008) clarified that there was no involuntary resettlement during implementation as most projects implemented were community (micro) projects with an average cost of US\$4,400 and avoided involuntary resettlement. Resident communities determined and prioritized project locations and infrastructure alignments such that they were either rehabilitating or complementing existing infrastructure for improved service delivery.

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

- Successful implementation of policy and legal reforms requires : (a) a detailed analytical work to inform government decisions, and (b) a high level of government ownership. The project experience shows that the Government was in the driver's seat in terms of identifying the issues, preparing the TORs, recruiting and supervising consultants.
- The Bank and other Development Partners played an important role in supporting decentralization. Continuity of focus and support resulted in the MoLG developing its own process of decentralization and developing a mutually supportive working relationship with the Bank and Development Partners.
- Training events and workshops alone are not enough by themselves to build institutional and human capacity within central and local governments agencies for sustainable service delivery. The project used different approaches including: (a) mentoring of staff by senior and more experienced personnel who provided hands-on support, (b) standardization of information flows through the preparation of handbooks and guidelines with clear instructions on how to implement new procedures, (c) creation of a local pool of

consultants/experts who understand and can respond to the needs of local governments, and (d) conducting regular assessments to provide follow up guidance and feedback .

- Mainstreaming project management is a process not an event : The project experience shows that mainstreaming project management has taken between seven to ten years of sustained effort on the part of the government as well as the Bank and other Development partners to become effective .

14. Assessment Recommended? ● Yes ○ No

Why? Field assessment of this project along with the previous First Local Government Development Project and the ongoing Third Local Government Development Project (once it is completed) can provide valuable lessons about the Bank's long term engagement in the sector .

15. Comments on Quality of ICR:

The ICR is concise and clearly-written. The analysis is well-reasoned and grounded in available evidence of project outputs and outcomes. The main shortcoming is that it provides no information on involuntary resettlement, a safeguard issue identified at appraisal . The Region comments (dated 09/15/2008) clarified that there was no involuntary resettlement during implementation .

a. Quality of ICR Rating : Satisfactory