Creating a Framework for Reducing Poverty: Institutional and Process Issues in National Poverty Policy

Uganda Country Report

Anne Marie Goetz
Institute of Development Studies
University of Sussex

Rob Jenkins
Birkbeck College
University of London

<u>April 1999</u>

I. INTRODUCTION

Objectives and Structure of the Study

This report is a contribution to a comparative study of six African countries (Uganda, Tanzania, Mali, Benin, Ethiopia, and Ghana). The objective is to assess progress in making poverty reduction central to development policy – and particularly to focus on cases within each country that represent movement in the direction of good practice. This study has been commissioned by the UK's DfID and SIDA, and carried out by the Institute of Development Studies at the University of Sussex. Terms of reference for this study are in Appendix I. A synthesis report will be presented to the SPA in mid-1999.

The Uganda country study was prepared by Anne Marie Goetz (IDS) and Robert Jenkins (Birkbeck College, University of London).[1] It is based on three weeks of fieldwork in Uganda in September/October 1998. Two Uganda-based researchers – Tenkir Bonger and Godfrey Bahiigwa of the Economic Policy Research Centre, Makerere University –

[1] For very helpful comments on this paper the authors are grateful to: Marcus Manuel, Mick Foster, and members of the IDS research team (Martin Greeley, Stephen Devereux, Susan Joekes, David Booth, Renata Sera, Howard White, Mick Moore). Marie-Jo Cortijo provided helpful research assistance.

have contributed a stand-alone study of the poverty-reduction focus in recent policies relating to the agricultural sector. The team conducted over 70 interviews with members of the development community in Kampala and the district of Mukono. Informants included government officials from various ministries, NGO activists and development practitioners, politicians at national, district- and sub-county levels, representatives of donor organisations, and academics. A list of people met is in Appendix II.

This is not an evaluation of the *impact* of the government's poverty-reduction policies, nor does it assess the relative merits of different approaches to measuring or conceptualising poverty. It is a review of the government's efforts to "mainstream" its stated commitment to poverty reduction across all areas of economic and social policy. Mainstreaming poverty reduction can mean, ideally, installing incentive systems to direct public expenditure to areas with the greatest potential to reduce the incidence of poverty, devising information systems to enable policy-makers to weigh the poverty-reducing impact of competing policy alternatives, and making the reduction of poverty as much of a national priority as economic growth.

Summary of Findings

Since not all aspects or sectors of government policy-making could be investigated, and given the focus in the TOR on positive cases of public action for poverty reduction, we have selected four areas which appear particularly promising, in that trends seem to be moving in the right direction:

1. Public expenditure management;
2. Reform to health planning and service-delivery;
3. Fiscal decentralisation; and
4. Regulatory reform for micro-finance operations.

Policy-making in these areas demonstrates efforts by various arms of the Ugandan government to:

- consult and involve relevant stakeholders, including those who represent the poor;
- elaborate poverty-sensitive criteria for prioritizing policy choices and for protecting spending on priority areas for poverty reduction;
- establish minimum standards for delivery, and indicators for monitoring and evaluation, which prioritize the needs of the poor; and
- create a conducive regulatory and governance environment capable of expanding the options facing the poor.

General Indications of Poverty-Eradication Orientation

This study finds a significant increase in the government's commitment to poverty reduction in Uganda since the early 1990s, both in political rhetoric and, more importantly, in concrete measures to target development resources to poverty-reduction activities. Two key highlights frame the general shift in focus:

1. A national **Poverty Eradication Action Plan (PEAP)** is in place and it is being mainstreamed through mechanisms to bind line ministries to reorient spending to focus on services for the poor. The key elements of the country's poverty-eradication plan are:

   - to maintain existing macroeconomic policy to support economic growth and also provide macro-economic incentives to enable to poor to participate in the growth process;
   - to focus public expenditure on increasing economic opportunities for the poor -- particularly in agriculture;
   - to provide basic social services (education and health care) to the masses;
   - to develop the capacity to respond rapidly to economic crises;
   - to promote transparency and accountability.

Sectoral policies and investment programmes are being revised, in light of the PEAP, in agriculture, health, water and feeder-road sectors. Strategies for education and main roads are already in place.[2]

2. Macro-economic stability and economic growth remains the government's greatest priority. There have been marked successes in expanding the production of tradables in the agricultural sector, particularly in coffee production, resulting in a notable decrease in the incidence of poverty amongst coffee producers. At the same time, there is some feeling both in civil society and within various parts of government that more progress is needed in agricultural policies to favor the poorest producers, which are food crop farmers, farmers in least-favoured agro-ecological zones, and in conflict-affected areas.

Trends in Four Case-Study Sectors

In the four policy areas which this report investigates, the findings can be summarised as follows:

1. In **national public expenditure management**, realistic measures are being taken to create institutional safeguards to protect poverty-oriented public expenditure and service delivery. These include:

   - restraints on discretionary over-spending by powerful ministries (which cut funds available for poverty-targeted priority sectors);

2 The Education Sector Strategic Investment Plan and the Ten-Year Road Sector Programme are already being implemented. The Health Sector Plan is nearing completion. The Modernisation of Agriculture Investment Plan has been sent back to the drawing board; hugely over-ambitious, expensive, and un-implementable, its revision is being overseen by the budget director. (The MFPED has had to intervene to coordinate the production of a more focused plan, in the context of great disarray at the Ministry of Agriculture, the staff of which is being reduced from 1,400 to 281 employees. Most of the Ministry's functions, particularly research and extension, are to be assigned to other, sometimes private-sector, institutions.)

- the creation of a Poverty Action Fund with the debt-relief savings from the Highly Indebted Poor Countries (HIPC) initiative; and
- the imposition of strong performance conditions on funds devolved to districts for non-wage recurrent expenditures in priority sectors.[3]

2. In **health sector reform**, measures are in place (or are under development) to:
    - increase funding for primary health care;
    - directly fund NGO health-service providers in some areas;
    - establish, monitor, and enforce minimum standards for service-delivery; and
    - rationalise and improve the efficiency of health care provision through the designation of sub-district health centres.

3. In **fiscal decentralisation**, steps have been taken to:
    - enhance the capacity of local administrators to plan and deliver services;
    - evaluating district performance on the basis of poverty-reduction and accountability criteria, with future funds linked to past performance; and
    - increase the types and availability of information for evaluating the performance of local governments.

4. In **micro-finance**, a range of government agencies in a consultative process with micro-finance institutions (MFIs), are revising banking regulations, in an attempt to:
    - enable MFIs to on-lend savings, and thereby make them more financially self-sufficient;
    - enhance the capacity of MFIs to target greater numbers of poor savers and borrowers, to service more isolated areas, and to offer a greater variety of financial services to micro- and small entrepreneurs
    - learn from and overcome the failures of existing, government-run, micro-credit programmes.

---

[3] So far, these spending conditions are particularly focused in the health sector, and are rather weaker in other sectors such as education or infrastructure.

Five Potential Threats

It is important to highlight five salient features of Uganda's economic, social, and governance framework which have the potential to retard or reverse the current process of reorienting public planning and expenditure to address the needs of the poor.

1. **Aid dependency** means that many anti-poverty measures are donor-driven. On the one hand, donor funds for poverty-reduction (and conditionalities tied to those funds) can provide much-needed support for anti-poverty advocates within government. This committed minority struggle on a daily basis against the indifference of some civil servants to certain aspects of the poverty-eradication agenda. Politicians with agendas of their own are another source of obstructionism, which strategic action on the part of donors can clearly help to reduce. On the other hand, the huge presence of aid and aid personnel can undermine local ownership of the anti-poverty agenda. For some government officials, the vast proliferation of sectoral strategies, action plans, and monitoring and evaluation systems breeds little more than cynicism. When each new round of blueprints and frameworks proves as over-ambitious and unworkable as its predecessors – or when self-serving politicians and bureaucrats find ways of side-stepping their carefully crafted provisions – the result can be demoralisation. It is plain that some government officials and NGO representatives are less than enthusiastic about the "new" poverty-eradication agenda.

2. The **high level of corruption** – as well as its pervasiveness, and the impression that even high-profile culprits are not punished – is a huge hindrance to efforts aimed at gearing public expenditure and regulatory reform towards the interests of the poor. Uganda ranks 73rd out of 85 countries (or country groups) in Transparency International's recent cross-national index of corruption.[4] Corruption in the allocation of public development funds can hurt the poor more than any other constituency, as their resources for protest tend to be weakest.

3. Uganda's impressive **growth rate and macro-economic stability still rest on uncertain foundations** – the country is still highly vulnerable to terms of trade shocks and bears a significant debt burden (with a debt-service ratio of 15% after its debt relief package as the first country to qualify for the HIPC initiative). One poor coffee harvest – or a bumper crop in Brazil – could seriously harm Uganda's balance-of-payments position, since coffee accounts for more than half of the country's exports.

4. Uganda's involvement in the crisis in the democratic Republic of the Congo may be contributing to **greater regional instability**, and may eventually undermine its hard-won social and economic gains, if defence spending or a conflict-related economic crisis begins to squeeze out poverty-reduction priorities. There is no doubt in Uganda

---

4 Transparency International has ranked countries on a 'Corruption Perception Index' which scores national integrity and transparency out of 10. The least corrupt, or highest-scoring, is Denmark (Britain ranks 11th, with a score of 8.7 along with Australia and Luxembourg), and Cameroon ranks lowest with a score of 1.4. Uganda's score is 2.6. ('Here's How Corrupt Your Country Is', *New Vision*, 24 September 1998).

about the importance of internal pacification for poverty-reduction, and expenditure on this is not questioned. Uganda's involvement in the D.R. Congo, however, has aroused the hostility of Uganda's neighbours and threatens to complicate its own civil war in the south, with Sudan confirmed in its support for Uganda's northern rebels.

5. **The HIV/AIDS epidemic in Uganda** is likely to adversely affect growth. The WHO estimates that the number of HIV-infected people could rise to more than 1.9 million people this year[5]. Although HIV-prevalence is higher in urban areas (with seropositive rates estimated to be as high as 27% in Kampala and as low as 3% in some rural areas[6]), the relative numbers are much higher in rural areas because the majority of the population live there. The extent of seroprevalence may be partly responsible for Uganda's very low life expectancy levels (see below) and certainly have an impact on the rate of growth. AIDS affects private savings and investment, and labour supply. In rural areas, dependency ratios are up in the hard-hit areas, less land is under cultivation, and farmers have shifted to less labor-intensive crops. Health expenditures are likely to go up. This said, Uganda's multi-sectoral strategy of prevention of HIV transmission, coordinated by the Uganda AIDS Commission, appears to be bearing fruit. There have been declines in new HIV infection rates noticed at the 6 urban sentinel sites and in ante-natal clinics, there is decreasing evidence of HIV in the 14 - 24 age group, and an increase in the availability and use of condoms.[7]

The Policy-Making Context: Recent Economic and Political Developments

The Incidence of Poverty

In 1998, the government, in collaboration with the Centre for the Study of African Economies, Oxford, developed an absolute poverty line based upon the costs of obtaining a minimum food and non-food survival package, using data from the annually updated Integrated Household Survey. The MFPED's most recent analysis of poverty trends on this basis declares a decline in absolute poverty between 1992 and 1996 – from 55.6% in 1992, to 50.3% in 1993/4, to 49.2% in 1994/5, to 45.6% in 1996.[8] Rural poverty has also declined, but from a higher starting point: from 59.4% in 1992 to 49.7% in 1996. These recent figures show that the people engaged in food crop cultivation experienced a 9% decline in the poverty headcount index between 1992 and 1996, compared to the national decline of 18%. Cash crop farmer experienced declines in poverty above the national average: the poverty headcount index in this sector fell by 32% in four years. Coffee liberalisation accounts for the increases in income in this sector, and is credited as the government's most effective poverty-reducing action.

---

5 World Bank, *Uganda: The Challenge of Growth and Poverty Reduction*, (Washington DC: World Bank, 1996), p 5.

6 Desmond Cohen, 1997, 'The HIV Epidemic in Uganda: A Programme Approach', (UNDP, paper from internet: www.undp.org/hiv/study1E.htm) p. 2.

7 The Honorable Dr. C.W.C.B. Kiyonga, Minster of Health, *Health Policy Statement 1998/99* (Kampala, Ministry of Health).

8 Ibid, p.10. See also S. Appleton, "Changes in Poverty in Uganda, 1992 - 1996", a report to the World Bank, 1998.

This good news from household surveys has to be put in the context of very low levels of welfare for the population as a whole. Uganda had a poor showing on every indicator except income in this year's Human Development Index. Life expectancy has shown the most dramatic change, falling from 44.9 in the 1995 HDI to 40.5 in the 1998 HDI. Uganda ranks lower on the 1998 Human Development Index than all of its neighbours, as the following table indicates.

TABLE I

Uganda's HDI Ranking Compared with Adjacent States

HDI rank and Country	Life expectancy at birth (yrs) 1995	Adult literacy rate (%) 1995	Combined 1st, 2nd & 3rd-level gross enrollment ratio (%) 1995	Real GDP/capita (PPP$) 1995	Human development index value 1995
137. Kenya	53.8	78.1	52	1,438	0.463
143. Dem Rep Congo	52.4	77.3	41	355	0.383
150. Tanzania	50.6	67.8	33	636	0.358
157. Sudan	52.2	46.1	32	1.110	0.343
160. Uganda	40.5	61.8	38	1,483	0.340

Source: UNDP, *Human Development Report*, (Oxford: Oxford University Press, 1998), p. 130.

Qualitative studies, particularly those conducted by NGOs in Uganda, indicate intensifying poverty and vulnerability in rural areas, increasing urban-rural inequalities, greater social and economic differentiation within communities, abuse of common property resources, an accentuation of gender-based inequality[9], and an erosion of social capital.[10] Qualitative research even suggests that the impact of coffee liberalisation has not been as positive as is suggested by proponents of purely market-led growth. The price-liberalisation-induced income gains among the poor may have reached a natural plateau. It is generally accepted that increased coffee production has not been the result of new planting or improved techniques, but of intensified use of domestic labour – usually that of women – on old trees.[11] Other studies indicate that the diversion of women's labour to cash crops has implications for family food security, particularly as increased coffee incomes can be diverted to male leisure pursuits, withdrawing male

9 This contradicts findings by Simon Appleton and supported in the World Bank's 1996 paper, *The Challenge of Growth and Poverty Reduction*, that women-headed households are better off than previously assumed. See S. Appleton, "Women-headed Households and Poverty: An Empirical Deconstruction for Uganda", Working Paper Series 95-14 (Oxford: Centre for the Study of African Economies, 1995).

10 See, for instance, Community Development Resource Network (CDRN), *A Study of Poverty in Selected Districts of Uganda* (Kampala, March 1996), mimeo; and Charles Lwanga-Ntale and K. McClean, "Desk Review of Participatory Approaches to Assess Poverty in Uganda", (Kampala, 1998), mimeo.

11 Deborah Kasente, Gemina Ssemogerere, Owor Adipa, "Gender Dimensions of Agricultural Policy in Uganda: A Case Study of Mukono and Masindi Districts" report submitted to UNRISD/UNDP project on "Technical Cooperation and Women's Lives: Integrating Gender into Development Policy (Kampala: July, 1998), mimeo.

incomes and labour from subsistence production.[12] In some parts of the country there are cases of women subverting cash crop production – by uprooting coffee trees or destroying vanilla plants – in order to limit demands on their labour.[13]

There is clearly mass poverty in Uganda, and it afflicts at least half the population. It is both more extensive and more intensive in rural areas, and is most severe in the northern region, where insecurity continues to undermine rehabilitation and development efforts. Most striking is the persistence of very low human development indicators in the context of rapid and impressive economic growth – with GDP increasing at an annual rate of over 6% per annum throughout the 1990s. Uganda's human development indicators paint a grim picture:

- life expectancy, at 40.5 years, is lower only in Sierra Leone;
- 38% of children under four years of age are stunted, which is 17 times the level expected in a healthy population;
- the under-five mortality rate (at 156 deaths for every 1000 live births in the 1991-95 period) is roughly 75% higher than the average for low-income countries; and
- the maternal mortality rate, variously calculated at between 506 and 1000 deaths for every 100,000 births, is one of the highest in the world.[14]

These indicators are worse than might be expected for a low-income country with a per capita income of $240.[15] The World Bank has called this the 'paradox' of poverty in a context of healthy growth. Critics of structural adjustment and of the stabilisation-obsessed policies Uganda has pursued since 1987 argue instead that persistent poverty is a somewhat predictable – not paradoxical – outcome of policies which disregard the differential capacity of poor producers to respond to price incentives, or to pay for social services which have been privatised.[16]

The Political Environment and Governance Framework

Poverty eradication has assumed a place of equal importance to macro-economic stability in political rhetoric. Most of the macro-economic reforms were completed by 1992 and national attention has now turned away from rehabilitation and stabilisation to institutional reform, improved service delivery, and poverty reduction.

---

12 CDRN, *A Study of Poverty in Selected Districts*; and UWONET, *Women and Structural Adjustment: A Case Study of Arua District, Uganda* (Kampala, 1997).

13 Personal communication, Deborah Kasente and Josephine Ahikire.

14 Sources: GoU/MFPED, *Uganda Demographic and Health Survey 1995: Summary Report* (Entebbe: Statistics Department, August 1996); GoU/Uganda National Council for Children, *Equity and Vulnerability: A Situation Analysis of Women, Adolescents and Children in Uganda – 1996 Statistical Update* (Kampala, 1996); Oxfam, "Debt Relief and Poverty Reduction: New Hope for Uganda" (from www.oneworld.org/oxfam.policy /papers/uganda.htm, September 1996).

15 GNP per capita in 1997, World Bank, *World Development Report* (Washington D.C., 1997).

16 See for example CDRN, *A Study of Poverty in Selected Districts*; and ActionAid, *Uganda Country Strategy Paper: 1994-1999* (Kampala, 1994).

This became evident in 1996 during the presidential and parliamentary elections, where competitive politics had the effect of attuning politicians to the need to provide a response to mass poverty. President Yoweri Museveni campaigned on a poverty-eradication platform. By the end of the year, he saw to it that a draft of a national Poverty Eradication Action Plan (PEAP) was circulating around government, donor, and NGO offices, and that the education sector was preparing for Universal Primary Education, with free education to be offered to four children in every family. When UPE was launched the next year it virtually doubled Primary 1 classes overnight: enrollment increased from 2.9 million to 5.3 million.

These measures indicate the strength of the government's commitment to poverty eradication, although as is often the case in Uganda, some measures – UPE for instance – have been taken with insufficient preparation in terms of institutional capacity-building. For this reason, it is probably a good thing that the PEAP has been exposed to considerable debate. This year's budgeting exercise was dominated by a concern to protect sectors with a greater impact on poverty reduction, and the main theme of the budget speech was poverty eradication.[17]

Recent political appointments have underlined the President's interest in seeing a poverty-eradication focus properly institutionalised in government. He has appointed ministers to the health and education sectors who many observers feel to have a good record of efficient management. In confidential interviews, staff in these ministries rate the newcomers' performance favourably compared to their predecessors. The June 1998 public-sector rationalisation exercise re-merged the Ministries of Finance and Planning (they had been merged before, in 1993), to enhance coordination between budgeting and planning. Within the new Ministry of Finance, Planning, and Economic Development (MFPED), a restructuring process resulted in key personnel from the poverty-eradication area moving to important positions such as Budget Director. These staff redeployments have the potential to increase the poverty-eradication focus of national expenditure management.

In spite of the suppression of party political competition, press and associational freedom has created an environment of lively public debate and critique of government policy-making. The press is particularly active in publicising allegations of corruption at the national level, while parliament is showing greater independence in monitoring government performance. In mid-1998, MPs voted against the president's proposal to expand his cabinet with more patronage positions. The proliferation of Ministers of State was described by one NGO representative as "one of the few growth industries in Uganda".[18] However, MPs have yet to mobilise an anti-poverty constituency among the public, or to constitute themselves as an effective lobbying group supporting poverty-eradication measures in government. No MPs turned up, for instance, at an important

[17] GoU, Minister of Finance, Planning and Economic Development, Hon. Gerald M. Ssendaula, *Budget Speech*, Delivered at the Meeting of the 6th Parliament of Uganda at The International Conference Centre (Kampala, 11 June 1998).

[18] Interview, 16 September 1998.

May 1998 meeting to discuss sectoral spending plans which had been determined in a national budgeting exercise designed to prioritise poverty-eradication measures.

The Inspectorate of Government, established in 1996, is setting up regional offices to enable it to identify the mis-use of public funds more effectively. It has been increasingly effective in encouraging the reporting of corruption; individual complaints about corruption have increased from 848 in 1996, to 1148 in 1997, to 2642 in the first half of 1998 alone.[19] In early 1998 it conducted a National Integrity Survey to poll 18,142 households and 1,595 public service workers on their experiences of probity or corruption in key services: primary education, health, police, local administration, judiciary and the Uganda Revenue Authority. Its findings about the pervasiveness of petty corruption – particularly acute in contacts with the police and judiciary, but serious in the health sector also – have informed the public-sector reform process.[20]

From late 1997 consultations began on a new land bill which is designed to provide smallholders with secure tenure and to rationalise and clarify ownership rights in order to encourage greater efficiency in the agricultural sector. The Land Act which was passed in July 1998 contains significant provisions to enhance the capacity of the poor to translate usufruct rights to ownership rights, such as Land Tribunals to ensure fair application of the law, and a special fund to enable the poor to meet registration and other fees. The new law, however, fails to provide adequately for women's land ownership rights (see Box 1). This presents a missed opportunity for institutional reform in the interests of poverty eradication, since women represent the bulk of food-crop producers, working in the most under-developed section of the economy.

---

19 Raw data viewed at the Inspectorate of Government, 25 September, 1998.

20 Inspectorate of Government, *Uganda National Integrity Survey 1998* (Kampala: CIET International, August 1998).

BOX I

The Lost Amendment: Weak Ownership Rights for Women in Uganda's New Land Law

Uganda's new land law, passed on July 2, 1998, has been promoted by the government as a pro-poor measure. One of its main objectives is to provide the majority of smallholders with security of tenure either by converting established usufruct rights to ownership rights, or by regularising tenancy rights. Women's associations in Uganda have been anxious to see women's rights of land ownership expanded in this new law. In Uganda, as elsewhere in Africa, the denial of women's property rights in customary and colonial land law has been linked to women's deteriorating rights of control over the fruits of their agricultural labour, with negative consequences for levels of poverty and food security. Assiduous advocacy and lobbying work since mid-1997 by a range of women's groups resulted in an amendment being tabled and passed in Parliament on June 25, 1998 to give women co-ownership rights in the marital home, and in land used for the daily sustenance of the family. However, when the Land Statute came out a week later, there was no trace of this amendment.

The gender-specific provisions in the new Land Act hold that land cannot be leased, mortgaged, or sold without the written consent of the spouse of the owner or occupant. Women critics have pointed out that this is an extremely weak form of protection of women's property rights. Women's 'consent' to a land transaction where they do not actually own the land is relatively meaningless. In addition, the law does not provide for widows' ownership rights, or for those of the abandoned wives of polygamous husbands, or for women in common law unions – three categories of women who are found in disproportionate numbers amongst the poor. Finally, the law ignores the prevalence of illiteracy amongst women in requiring 'prior written consent'. The new Land Act has, in effect, codified a marginal status for poor women in the land market.

The whereabouts of women's 'lost amendment' are still a mystery. Newspaper reports on the Parliamentary session in which the amendment was tabled and passed trumpet: 'Spouses to co-own land', yet the Minster of Lands cannot recall any discussion of the amendment on that day. UWONET has made repeated efforts to scrutinise the Hansard, and have asked for a tape of the day's proceedings, but have not yet been given access to these records. There is little doubt that the unpopularity of the 'women's amendment' is responsible for its disappearance, although generally poor record-keeping, reporting and publishing systems in Parliament play a part. Women encountered enormous resistance to their amendment throughout consultations over the Land Bill; their submissions were ridiculed by the all-male committees debating the Land Bill at the Ministry of Lands, in the Cabinet, and Parliament. Their position was undermined by the President's announcement in early 1998 that women had to 'prove themselves' in marriage before they could acquire rights to property. UWONET has been discouraged from pursuing the lost amendment on the grounds that this might revive the dangerous ethnicisation of the debate over land reform (as a Tutsi conspiracy to deprive the Baganda of their tribal lands) which dogged the passage of the Land Bill. This subordination of women's property ownership rights to the politics of ethnic compromise degrades the quality of women's citizenship. It also has implications for poverty reduction, because of the large numbers of assetless women in poverty, and because of women's need to own land for greater leverage in decision-making over food production and family welfare.

Sources: Interview, Sheila Kawamera, UWONET, 25 September 1998, Kampala; 'Spouses to co-own land', *New Vision*, 26 June 1998; UWONET, *Women and Land Rights in Uganda* (Kampala: Friedrich Ebert Stiftung, October, 1997; UWONET and the Association of Women Parliamentarians (AWOPA), *Proposed Amendments on the Land Bill 1998*, Kampala, UWONET, April 1998).

Finally, despite the generally benign[21] attitude of the GoU towards NGOs, there are worrying signs concerning the government's attitude towards civil society. Some efforts by NGOs to increase their role in public advocacy and policy dialogue with government have been thwarted. In one case, this has been due to a restrictive registration system. The Ugandan National NGO Forum, for instance, has attempted to register itself with the authorities, as all voluntary organisations must. Bureaucrats at the Ministry of Internal Affairs have refused to process their application, claiming that further clarification must await the findings of a commission considering the creation of a government-run committee of voluntary organisations, the "National Council for Voluntary Social Services". Both this arbitrary method for evaluating a routine application and the stated rationale for refusal suggest efforts at government control of civil society. These have nothing to do with legitimate security concerns.

While the absence of multi-party democracy may not be specifically to blame for restrictions of this type (or the violations of procedure indicated by the "lost amendments" to the Land Act – see above), government anxieties that certain NGOs might be "in league with" particular parties may have inclined it towards a less liberal attitude than might be optimal for fostering a civil society that could hold government accountable for actions and inactions which affect the poor. The sheer inaccessibility of the offices of the chief anti-corruption agency – housed in a heavily guarded compound which also serves as the headquarters for the ruling National Resistance Movement – is another example of this syndrome.

Civil Society Engagement with the Agenda-Setting Process

The main civil society actors to engage with the government over poverty eradication matters have been NGOs involved in development and advocacy. NGOs have been consulted regarding many, though not all, government policies. The quality of "consultation" has also varied enormously – from being invited to briefings, to the integration of NGOs into formal policy-development processes. The latter form of consultation is represented by the inclusion of NGOs on key technical and steering committees for projects with important anti-poverty effects, such as the District Development Pilot Programme (see section V of this report, on decentralisation), or the Uganda Participatory Poverty Assessment Programme (see below). Moreover, alternative interpretations of Uganda's poverty situation have been produced by the NGO community throughout the 1990s.[22] Through such information-generating activities, NGOs feel that they have been taken increasingly seriously by government and donors in recent years.

NGOs were involved in producing the PEAP, and have been given a central role in implementing the UPPAP, both of which are described below. They have also been involved in two other national consultative exercises. One is the Structural Adjustment

---

21 This was how it was described in World Bank, *Uganda: Social Sectors Review* (Washington, DC: World Bank, 1994?)

22 See for example CDRN, *A Study of Poverty in Selected Districts*; and ActionAid, *Uganda Country Strategy Paper: 1994-1999* (Kampala, 1994).

Participatory Research Initiative (SAPRI). This brings together government, civil society, and donors to research the perceived impact of structural adjustment measures. The other is the UNDP-funded Vision 2025 process, which has involved consultations to elicit views on national priorities for poverty reduction, human development, governance, environment, gender equity, and economic development more generally. Many observers feel this latter process, however, operates at too abstract a level (eliciting open-ended "wish lists") and with too long a time-frame (planning to the year 2025) to be particularly credible.

The PEAP

The MFPED circulated a draft of the PEAP in November 1996 in the hope of eliciting opinion through extensive national debate and consultation with district authorities, line ministries, NGOs, academics, and donors. This process, leading to the production of the final draft a year later, not only engendered consensus in the development community over national poverty eradication goals, but helped to build a sense of ownership and commitment to poverty eradication policy across government ministries. Late in the process, however, the MFPED personnel responsible for the PEAP realised that the consultative process had been excessively Kampala- and elite-based. In mid-1997, MFPED staff participating in a World Bank Country Assistance Strategy mission to Soroti and Kabale found that the PEAP priorities were not necessarily shared by the communities they consulted. Recognition of the importance of understanding local variations in poverty has prompted an exercise in participatory poverty assessment. The PEAP will be continuously revised in the light of findings from the UPPAP.

The PEAP's strategy is in keeping with the government's liberal orientation in economic planning: public action is confined to providing the public goods which the private sector does not – feeder roads to provide access to markets, security, land rights for the poor, free primary education. The objective is to create an environment – through good governance and regulatory reforms as well as targeted sectoral interventions – in which the poor can earn incomes from productive employment. At the sectoral level, there are four priority areas: primary education, primary health care, agricultural extension, and rural feeder roads. Regional disparities are to be reduced through equalisation grants and through the enforcement of national minimum standards of basic service delivery.

UPPAP

The Uganda Participatory Poverty Assessment Programme is located in the MFPED, which signals the government's interest in this exercise. The first round of participatory poverty assessments in nine districts began in September 1998. Oxfam has a lead role in managing this process, and a number of other NGOs are providing technical support, or will step in later as the process expands to other districts. One of the main objectives of the UPPAP is to institutionalise a participatory approach to the assessment and monitoring of poverty at the district level, and in its second Phase, to support capacity-building for local participatory planning. Each of the nine districts involved in the first training process for the UPPAP sent three participants, usually a planner, a councillor, and

a NGO representative. These three people are being supported by three members of the core UPPAP team in conducting four weeks of field research using participatory methods. The findings of this process will be discussed with district and national authorities, and disseminated to government planners, particularly planning offices of line ministries. It will support an on-going process at the MFPED of improving the information on poverty used by planners by the publication of discussion papers, two so far, on poverty trends in Uganda.

So far considerable energy has gone into preparation for the field research which is now underway. Less time has been spent on planning a dissemination strategy. This deserves considerable attention. In our interviews, many government officers admitted that they rarely consulted the existing "Poverty Trends in Uganda" discussion papers. One MFPED staff member expressed concern about the capacity of planners to absorb the kind of rich and diverse information which tends to be generated through participatory research. A related problem is the relative isolation of the UPPAP from related government programmes. Although all NGOs we encountered were very much aware of the UPPAP, if not indeed actively participating in it, there was much less awareness about it in government offices. We did not, of course, conduct a comprehensive survey. But it was telling, for instance, that the officer at the Decentralisation Secretariat in charge of training district administrators and councillors was unaware of the UPPAP. If the UPPAP is to have an impact on local planning and information generation, it will have to be integrated to these kinds of government functions.

II. PUBLIC EXPENDITURE MANAGEMENT

Over the past three years, Uganda has been developing mechanisms to increase adherence to poverty-reduction goals in the process of allocation and management of public expenditure. Of late, the objective has become more focused: to bind both planners and officials responsible for controlling the disbursement of funds to the specific strategies outlined in Uganda's Poverty Eradication Action Plan (PEAP). A range of mutually supportive initiatives are underway to internalise the objectives of the PEAP.

The extent to which poverty-eradication objectives are actually institutionalised in new incentive systems, district or sectoral planning, individual performance-evaluation criteria, or project assessment criteria, is uneven. The two main areas where there are indications of a strong commitment to promoting a poverty-eradication agenda in public expenditure management are:

1. The process of linking the PEAP to both the three-year Public Investment Plan (PIP) and the annual budget; and
2. The development of institutional constraints designed to protect poverty-eradication spending, including:
    - ceilings on ad hoc post-budget "supplementary" allocations,
    - reform to the budget making process itself, and
    - the creation of the Poverty Action Fund.

From the PEAP to the PIP: Criteria for Prioritising Development Projects

The most significant effect of the PEAP so far is to focus the national budgeting process towards priority sectors for poverty eradication. This year's Budget (subtitled 'Budgeting for Poverty Eradication') brought a one hundred percent increase of recurrent expenditures in PEAP programmes. Concurrently, the PEAP has been operationalised by translating its objectives into criteria with which to prioritise projects and programmes on the basis of their contribution to eradicating poverty. This process was being finalized in September 1998, and has resulted in the five-year Public Investment Plan (PIP), from which annual development budgets are derived. A contribution to poverty-reduction is now a necessary precondition for the inclusion of projects in Section 1 of the PIP – that is, projects which are protected from budget cuts due to their status as Priority Programme Areas (PPAs).

This is a strong example of mainstreaming poverty eradication in national development planning. It is being supported by simultaneous efforts to protect priority spending at the District level, to improve the capacity of District-level planners to address poverty problems, to build public sector efficiency, integrity, and accountability at all levels, to develop information systems for planners about the poverty situation, and to consult regularly with civil society organisations about poverty-eradication spending priorities.

The direct contribution of a project or programme to poverty eradication has become much more central to its chances of being accepted as a priority on the government's

development budget than it was four years ago, when economic viability was more important. Criteria for prioritising donor investments and sectoral development programmes have been distilled from the PEAP, and have been applied to the process of screening new project/programme proposals and restructuring existing projects in the five-year Public Investment Plan. Now, in effect, the Public Investment Plan has become Volume II of the PEAP – it indicates how poverty eradication goals are to be operationalised. Unfortunately it was not possible to assess the effectiveness of this screening process at the time of this study as the PIP had not yet been published.

Although poverty reduction has always been an implicit part of spending prioritisation processes, the new criteria for identifying core projects represent a clear departure in putting poverty eradication concerns before concerns with macro-economic stability. Prior to the current PIP, the three-year Rehabilitation and Development Plan (1993/4 - 1997/8) representing the 'single most comprehensive statement of Government's principal social and economic policies' (p.1), listed criteria for new projects as follows (p. 78):

(a) economic viability;
(b) availability of donor funding;
(c) the necessity for direct Government participation;
(d) project status, i.e. new or ongoing;
(e) macro estimates of available resources over the period;
(f) recurrent cost implications;
(g) Government of Uganda counterpart funding requirements.

As an IDS study in 1994 noted: 'Poverty reduction is not explicitly mentioned on this list and would not be captured directly by an analysis of economic viability, even if such an analysis were feasible for human resource projects.'[23]

Criteria proposed in collaboration with the government by the World Bank's 1993 PER and by an independent review of public expenditure in February 1994 did mention poverty reduction as one of a dozen criteria, albeit as a social rather than a sectoral objective. The PER proposal is reproduced in Table II below.

---

23 A.M. Goetz, Simon Maxwell, and Henry Manyire, *SPA Poverty and Social Policy Working Group Consultancy on Poverty Assessment and Public Expenditure Issues: Uganda Country Study* (Brighton: IDS mimeo, 1994), p. 22.

Table II
Development Investment Prioritisation Criteria (1993)

Criteria	Comments
1) Criteria in respect of general Economic and Sector policies	Government has a declared policy to put high priority on selected social and economic sectors.
• A project's consistency with sectoral policy.	Generally, projects should be consistent with the articulated sectoral policy.
• A project's consistency with regional development policy.	Projects that extend resources to other regions such as the Northern Uganda Reconstruction Programme should receive high ranking on this score.
• A project's consistency with social objectives.	Poverty reduction is a major policy objective. Programs that reduce poverty and benefit disadvantaged groups are important to meet this policy objective.
2) Economic and Financial Criteria	
• A project's economic worth.	The value of many projects can be expressed in terms of IRR, NPV or cost-benefit ratios.
• A project's demands on budgetary funds.	Projects with minimum demands on budgetary funds are preferred to those with heavy demands.
• The availability of donor funds.	Grants preferred to loans.
• The impact on recurrent expenditures after implementation.	Projects make demands on recurrent expenditures in the future. Project appraisals should provide estimates of these costs.
• The contractual and other costs involved in terminating or rescheduling project implementation.	Need to make sure that the costs saved are not outweighed by the penalties involved.
3) Other Criteria	
• Implementation status	Is it really worth terminating or scaling down an almost completed project rather than one which has just started.
• Budget Call Circular instructions.	The BCC should be used to guide project selection in unusual circumstances. The BCC could set limits on the spending within specified sectors.
• Political pressures	May be inevitable but implications need to be spelled out. Given a resource constraint every new political project means fewer resources for existing projects.

Source: World Bank 1993, p. 57.

In contrast, the new draft criteria are clearly centred on poverty-eradication concerns, as is suggested when Table IIIbelow is contrasted with the earlier project selection criteria.

Table III
Revised (Draft) Development Investment Prioritisation Criteria (1997)

Category 1: Project to improve the quality of life of the poor:
These are projects that:

a) provide and enable access to basic social services to the masses (basic health, primary education, water, basic legal services);
b) provide and improve physical infrastructure for social services (as defined in (a) of Category 1) in rural areas;
c) facilitate preparedness and quick response to natural or manmade disasters;
d) eliminate regional disparities in the quality of life;
e) provide community involvement and participation;
f) provide help to vulnerable and disadvantaged groups;
g) improve food security in the country;
h) reduce gender disparities; and
i) improve security of access to energy and biomass resources.

Category 2: Projects that have the potential for increasing incomes of the poor within the timeframe of the PEAP:
These are projects that:

a) have high economic rate of return in the priority sectors of PEAP Vol I;
b) generate mass employment of unskilled and semi-skilled; increase rural production (including use of irrigation methods, etc.);
c) provide and improve 'other' infrastructure such as marketing and feeder roads;
d) improve rural technology and skills; and
e) eliminate regional disparities.

Category 3: Projects that will provide and maintain an enabling environment:
These are projects that:

a) enhance sustainable development;
b) ensure macro-economic stability and accelerated economic growth;
c) promote good governance.

General Principles:

While evaluating the projects during the selection process, there will be general principles that will have to be adhered to for all projects. These principles are:

a) the projects and programmes should be sustainable;
b) all projects/programmes should not put macro-economic stability at risk;
c) should not lead to environmental degradation.

Source: MPED, Memo: *Re: Meeting of the Sectoral Working Groups on the Review of the PIP as part of the Preparation of Volume II of the PEAP*, (Kampala, MPED, mimeo, August 29, 1997).

It must be stressed that these are draft criteria which will be revised in light of their practicality in application. A number of problems were encountered in preparing the PIP using these criteria. The criteria were given weights to enable comparison between project/programme scores (total category weight for Category 1: 41.7; for Category 2: 40.1, and for Category 3: 18.3). However, this weighting system over-rewarded multi-sectoral projects which included actions *related* to poverty eradication, but not *primarily* designed with poverty eradication in mind. Support for Makerere University, for instance, scored better than smaller projects for boreholes and community education, because Makerere, in addition to offering tertiary education, also runs a primary school and a health clinic, both of which scored well on their poverty focus.

Other problem areas concerned the relatively low weight given to good governance. Many good governance proposals to enhance transparency or to improve the quality of statistics used for planning were not able to score weights commensurate with their importance in improving national and local planning. A recognition of this problem led to the development of "governance indicators", intended for inclusion in the PEAP. A draft version of these was prepared by external consultants, but has thus far not reached a stage that is considered implementable.[24] Apart from basic recommendations concerning the publication of financial information, they appear rather unworkable.

One problem with the format listed in Table IV, perhaps, is that the multiplication of criteria for project prioritisation actually undermines flexibility and room for a positive application of a planner's discretion which was provided by more broadly and loosely-defined criteria. This can, paradoxically, have the effect of making planners more vulnerable to political interference, if the poverty-eradication criteria are seen as either unworkable, or easily manipulable.

One example we were given illustrates this problem. The Ministry of Information submitted a funding request to establish an FM station in a depressed region, with the ostensible objective of broadcasting programmes on immunisation to the poor. The MFPED pointed out that few poor people own radios, and that in any case, massive investment in creating a new station was unnecessary given that at least two upcountry radio stations could transmit this same information at a much lower cost. Powerful politicians in the ruling party supported it because it allowed them to extend their influence to remote areas. In the end, the MFPED's argument regarding the minimal poverty-eradication contribution of this proposal failed to thwart its adoption.

Institutional Safeguards to Protect Poverty-Eradication Spending

While gearing the donor-dominated PIP towards achieving specific poverty-eradication strategies is clearly a step in the right direction, such measures are unlikely to have an impact on overall spending patterns if recurrent expenditure does not support the same priorities. Official GoU policy since 1991 been to protect budget allocations for Priority

---

24 "Draft Governance Indicators for PEAP Annex, Table 14(a), prepared by Kimberley McClean and Stella Makubuya, Nordic Consulting Group (Uganda), 24 November 1997.

Programme Areas (PPAs).[25] Actual expenditure, however, has routinely deviated from budgeted priorities, often by large proportions. This has resulted from the reliance on *ad hoc* post-budget allocations. These large "supplementary expenditures" have been incurred primarily by powerful ministries (State House, Foreign Affairs, Defence, the Vice President's Office), and represented demands for additional resources unrelated to poverty reduction. They were mostly for ministerial perks and related forms of patronage (vehicles, overseas trips, office renovations, ostentatious security displays such as motorcades). A significant proportion came from unplanned increases in defence spending in response to fluctuations in Uganda's internal security situation.

Limiting Supplementaries

Because of the hard-budget constraint, in the form of the cash-release accounting system, these increases have to be compensated for by reductions in other areas of the budget. In practice, PPAs were among the main victims: the actual funding received almost always fell well short of the budgeted amount. In the early 1990s, the government set a goal of limited supplementary allocations to 5% of the original budgetary allocation. This was regularly exceeded by ministries with the clout to override beleaguered finance-ministry officials.[26] In classic fashion, the failure to meet the 5% target resulted in an even more stringent ceiling – of 3% – being introduced.

While this remains an uphill battle – particularly in the context of Uganda's worsened security environment, which has given defence officials greater leverage in demanding additional resources – some progress has been made. In 1997/98, for instance, under-performing tax revenues put greater pressure on central government disbursements for PPAs. Nevertheless, they were spared worst effects of the inevitable spending cuts, and in fact stayed close to the target of receiving 95% of the original budget estimates.

In mid-1998 efforts were made to toughen the norm restricting supplementaries to a ceiling of 3% of the original budget estimate for each ministry, and the complementary provision requiring that actual expenditure on PPAs be at least 95% of the budget estimates. The MFPED has been given greater discretion in evaluating applications for supplementary allocations. Insider reports indicate that key personnel within the MFPED are taking a harder line with ministries which have lodged applications for large supplementary allocations. Two months into the financial year, the MFPED had already received requests for 90 billion shillings in supplementary allocations. MFPED officials have repeatedly invoked donor conditionality as reason for rejecting some of these requests, and indeed cite the imposition of donor conditionalities as an important "weapon" in their fight to reign in ad hoc spending.

Of course, MFPED officials do not have the final say. This need not always result in their decisions being quashed at the political level. Any significant deviation from original line

25 In the areas of primary education, primary health care, and road maintenance. Subsequently, this list was greatly expanded to include several administrative and judiciary programmes.

26 Ed Campos and Sanjay Pradhan, *Budgetary Institutions and Expenditure Outcomes: Binding Governments to Fiscal Performance*, Policy Research Working Paper 1646 (Washington DC: World Bank, September 1996) p. 30.

ministry budget allocations *must* now go through cabinet. The President's response to requests for supplementaries is increasingly to direct ministers to more clearly spell out their spending needs during the budget-making process. As a result, awareness is increasing that there is no longer a "second round" of negotiations which can be used to claw back more funds through supplementaries. This means that the annual budgeting exercise will be treated more seriously. This should (hopefully) spur line ministries to produce better-informed data; but will without doubt lead to more acrimonious disputes, which until now have been avoided by allowing slippage on spending targets.

Budget Commitments and the Budget-Making Process

As additional support for spending on PPAs, the government has committed itself to increasing expenditure on the PPAs at least at the rate of nominal growth in GDP.[27] This is of course hardly written in stone, or even constitutionally protected. But given the existence of increasingly vocal parliamentary critics, the government has a fair amount of incentive to make good on this commitment. The budget allocations for 1998/99 do show marked increases in allocations to education and health of 16.4% and 31.9% over 1997/98.[28] Education, in fact, takes the biggest percentage share of the recurrent budget.

Agriculture remains an under-funded sector. (See Appendix 3 for sectoral classifications of government expenditure on the recurrent budget.) Even a minimalist view of the state's role in agriculture requires an effective research and extension system. The widespread view in Uganda is that currently this system is in a shambles and barely functions in many places. The problem is partly management arrangements, but also levels of funding. In short, additional funding is necessary though not sufficient for improving agricultural extension, and therefore the capacity of farmers (particularly the poor among them) to improve their lot by, for instance, diversifying into higher value-added crops. In addition, to help the poorest producers, some innovative work is needed to support crops which their food-security concerns lead them to grow. (See appendix report on agriculture.) Although spending for agriculture has increased, it still represents just 1.8% of the recurrent budget. The surprisingly low allocations to a sector which is so central to the productivity and incomes of the poor has to do with a number of capacity problems in the agriculture ministry, not least its failure to adapt to a new leaner identity with the privatisation of a number of its functions. As noted earlier (footnote 2) its budget submission in 1998 was rejected because it failed to prioritise, and the MFPED has had to intervene to help create a more realistic plan for the modernisation of agriculture. More detail on this process is provided in the companion piece to this paper, the study by T. Bonger and G. Bahiigwa: 'Poverty Eradication Implications of Agricultural Policy in Uganda'.

The budget process itself is being redesigned, partly with the support of World Bank technical assistance. The development of the 1998/99 budget relied heavily on the work of newly created sectoral working groups. These included representatives from both the finance ministry and from relevant line ministries, as well as specifically assigned

27 GoU/ IMF/World Bank, *Policy Framework Paper* (Kampala: MFPED, September 1998), p. 9.

28 MFPED, *Sectoral Classification of Government Expenditures*, constant prices, see Appendix 3.

technical advisors. The purpose was to press line ministries to base their spending decisions on realistic estimations of cost which could be accommodated with a predefined resource envelope. Having such limits imposed relatively early in the budget-making process – as opposed to the usual practice of sending back absurdly unrealistic plans which would be subject to drastic revisions at the last minute – resulted in most sectoral working groups recognizing the importance of prioritizing the items on their wish lists. Another benefit was that, on the basis of these priorities, the working groups were able to frame medium-term budget choices. These had to be consistent with the PEAP, and were ultimately fed into the Budget Framework Paper, itself a mechanism for promoting continuity from year to year, and the annual "Background to the Budget" document.[29]

Representatives of civil-society organisations were invited to participate in a consultative forum which evaluated the priorities, spending commitments and impact estimates for all of the working groups. The MFPED is currently in dialogue with line ministries, NGOs, and donors in an effort to develop a framework for involving civil society organisations earlier in the process for the 1999/2000 budget round. NGOs will be invited to participate in setting sectoral spending priorities, and to participate in deliberations throughout the lifespan of the budget-making process. This would represent an enormous step forward in the nature of government-NGO relations, and would provide a strong basis for civil society monitoring of policy and expenditure commitments once the budget process is completed.

The Poverty Action Fund

Another example of a mechanism to protect poverty-related expenditure is the debt relief extended to Uganda under the Highly Indebted Poor Countries (HIPC) Initiative has been channeled into a separate government account, termed the Poverty Action Fund (PAF). In 1998/1999, the cash-flow savings are estimated at US$ 37.2 million (or UgSh 44.64 billion).

Debt relief is a good example of the evolution of constructive relations between the government and the NGO community around poverty-reduction measures. Initially, the MFPED was apparently somewhat reluctant to engage in the lengthy process that was required in order to qualify for relief under the HIPC initiative, or to involve NGOs in the process of considering available alternatives. For example, when Oxfam launched its debt-cancellation campaign in 1994, and even when the Uganda Debt Network began campaigning for debt relief in early 1996, relations with government were uncomfortable; certainly the government never invited these groups to participate in debt-management discussions.

As the government's negotiations for debt relief gained ground, however, it began to appreciate the role of international NGOs in creating an environment for debt forgiveness. This become particularly clear to GoU officials when they had meetings arranged for them in Washington (with multilaterals and U.S. government and congressional officials)

---

29 GoU/MFPED, *Background to the Budget 1998/99 – Budgeting for Poverty Eradication* (Kampala: MFPED, June 1998).

by representatives of international NGOs which had been working with Ugandan NGOs to map out a debt-relief lobbying strategy. From 1997 regular channels of communication have been established between Oxfam, the Uganda Debt Network and the MFPED, the Bank of Uganda, the World Bank, and the IMF. These contacts have enabled NGOs to disseminate information about the debt-relief process[30], and also to begin a process of "translating" economic planning information into more accessible terms for civil society groups. This has given a broader set of advocacy groups a chance to understand and make a contribution to policy debates.

The Uganda Debt Network and other NGOs have also been involved in efforts to monitor the operation of the Poverty Action Fund. It has, for instance, taken part in both pre- and post-budget meetings at which the priorities for the Poverty Action Fund were discussed. These civil society organisations were also consulted by donors in discussing the ways in which the financial reporting for the PAF could best be presented. Of particular concern was the need to indicate clearly the source of resources for specific budget items, so that the "additional resources" from the PAF would be readily apparent. There continues to be considerable fear among many organisations that the existence of the PAF will reduce the pressure on government to maintain or increase spending on priority areas. In other words, the PAF – if not properly monitored – could undermine the other disciplining mechanisms outlined above.

The initial signs in this regard are fairly encouraging, and the consultative forum held in September (which included both donors and NGOs), was able to focus on fairly detailed monitoring procedures, thanks to the presence of technical staff from line ministries – particularly health and education – which are receiving additional funds through the PAF. The other main item on the agenda was how to attract additional donor support to increase the resources available through this mechanism, since it is designed to accommodate external assistance beyond simply HIPC-related debt relief. There are currently plans to expand the membership of the regular PAF review meetings to include parliamentarians.

---

30 See, for instance, the special newspaper supplement prepared by the Uganda Debt Network during President Clinton's visit to Uganda in March 1998.

III. REDEFINING PRIORITIES IN HEALTH-SECTOR PLANNING AND SERVICE-DELIVERY

While health indicators in Uganda are extremely poor and expenditure per capita is far below what it should be – even for a low-income country – health policy is nevertheless one area in which the government is clearly moving in the direction of better practice. As with other sectors in which a more poverty-sensitive approach is being put into place, the impetus has come from the top – in this case from the health minister himself, Dr C.W.C.B. Kiyongo, who by all accounts has injected new life into the government's approach to improving service-delivery, rationalising bureaucratic structures, and broadening consultation. The new strategies are certainly being prodded by donor concerns, but without sufficient commitment at the political level, discussions of reforms would likely have met the same dead end as their predecessors.

Although, as with most of the reforms discussed in this report, it will take time to determine the effectiveness (and in some cases even the exact form) of changes to the way in which health expenditures are planned and services delivered, there are several positive trends. The four main areas in which a substantial degree of poverty-reduction-related innovation has been in evidence are:

- The increased focus on Primary Health Care (PHC), effected through a variety of means;
- Incorporation of NGOs and other private-sector actors into an integrated health plan, including direct government funding for these providers;
- A clear movement in the direction of adopting performance measures and national minimum standards in service delivery and in the allocation of budgets; and
- The introduction of a system of health sub-districts.

In analysing the measures which have been put in place – or are currently under development – the following discussion will also consider the importance of two cross-cutting themes which have been central to the process by which they have evolved: a recognition that local governments will have to play a large role in the planning and delivery of health services, and an increased emphasis on generating and using information in both the priority-planning process and in monitoring expenditure flows.

Background on Health Policy

Health policy in Uganda since the installation of the NRM government in 1986 has undergone a series of profound shifts, both at the level of sector-wide strategies and in terms of approaches to specific targeted interventions. It is beyond the scope of this report to enter into details. The broad outline, however, will help to place some of the more recent attempts to prioritize the needs of the poor in their proper perspective.

In the immediate post-conflict period, the emphasis was on rehabilitation of hospital facilities and on re-establishing critical, vertically organised programmes, such as the

Uganda National Programme on Immunisation and the Essential Drugs Management Programme. These were seen as short-term solutions to pressing exigencies – but, perhaps inevitably, the characteristics of this approach became entrenched and difficult to dislodge once the immediate emergency was over. In particular, the Ugandan health sector was characterised by fragmentation, with many programmes and projects only loosely integrated into an overall health-sector strategy.[31]

The 1993 White Paper on Health attempted to change this situation. It represented a large conceptual step forward, recognising the need to increase resources from both the public sector and households, improve complementarity between government and NGO service delivery, and strengthen the planning and management functions. In keeping with the Bamako initiative, emphasis was laid on community participation. Guidelines issued by the ministry stated that "Successful Primary Health Care implementation aims at making communities self-reliant...."[32] Part of this concern was driven by the hope that once involved in planning and setting priorities, community members would be willing to pay a portion of the costs of services. This was not a particularly effective strategy, especially since it did not receive the necessary financial or organisational support.[33]

In the years since 1993, a large number of initiatives have been undertaken by donors and the GoU at many levels, from national programmes to local interventions. Only in the last couple of years, however, has the long-held view that PHC must be the focus of activity been backed up with the supports required for it to begin doing its work: additional resources, of course, but also the integration of NGOs into the national health-sector framework and the creation of systems and procedures to enforce accountability and assist the processes of planning and budgeting.

Primary Health Care

The increased emphasis on Primary Health Care has taken several forms, and has been supported by an increasingly comprehensive set of management and institutional arrangements. Before offering this up as an unalloyed success story, however, it must be emphasised that more than half (53%) of the central government's actual expenditure in 1997/98 went the MoH headquarters, "other" central services, and the national referral hospital (Mulago hospital). PHC accounted for only 15%.[34] Uganda's move in the direction of better practice is very much at an early stage.

---

31 Joanna MacRae et al., "A Triple Burden for Health Sector Reform: 'Post'-Conflict Rehabilitation in Uganda", *Social Science and Medicine*, Vol. 42, No. 7 (1996), pp. 1095-1108.

32 Ministry of Health, *National Guidelines for Community Participation in Primary Health Care in Uganda* (Entebbe: Ministry of Health, 1993).

33 See John Munene et al., *Revitalization of Primary Health Care in Uganda: A Study of the Interface of Basic Health Services and the Community* (Kampala/Amsterdam: Makerere Institute for Social Research/Royal Tropical Institute-Amsterdam, August 1997).

34 Even this figure is based on the assumption that 5% of Mulago expenditure, 10% of government district and referral and NGO hospital expenditure, 66% of counterpart funding for development projects and 10% of lunch allowances are for PHC. MoH, Planning Dept., "Proposed Allocation of Government Resources for Health to 2001/02", paper prepared for Donor Conference, Grand Imperial Hotel, Kampala, 18-19 May 1998, p. 3.

The main plank of the reforms designed to operationalise the commitment to poverty-reduction through support for PHC is the earmarked Conditional Grant. Introduced in 1997/98, the PHC conditional grant channels resources directly to districts, and is designed to increase service-delivery capacity. More specifically, it was intended to stem the decline in non-salary Government spending on PHC.[35] This is part of the overall strategy for shifting from central and curative hospital services to primary health care which is more accessible to the poor. It involves directing additional resources (from, for instance, the debt-relief-related Poverty Action Fund) into priority items; holding expenditure on Mulago Hospital, MoH headquarters and central facilities constant; and generating net savings in government hospitals. A rather cautious strategy by some accounts, but one which should prove sustainable over the longer term.

The way in which the conditional grant for PHC has been developed indicates the capacity of the MoH to learn lessons and adapt policy accordingly. The MoH Health Planning Dept itself recognised that the first year (1997/98) of this approach did not meet expectations. In particular, the levels of actual disbursement were lower than expected, and the "loose guidelines" on the use of funds (along with weak mechanisms for accountability) caused problems.[36] As a result, the guidelines were toughened up considerably for 1998/99, when a significantly larger amount of funding would be at stake – UGSh 6.4 billion compared to UGSh 1.7 billion for 1997/98. The guidelines indicate not only what the funds can and cannot be used for, but also ringfence certain portions of the conditional grants for specific activities, such as the prevention of epidemics, additional drugs, health education materials, and so on. The main purpose of the grant is to assist districts in delivering the minimum package of services. These are spelled out clearly for each type of health unit, and include input and process standards relating to quality of service, information systems, equipment, drugs, financing, management, facilities, and staffing.[37]

The 1998/99 guidelines also provide far more detail in terms of how the funds should be managed, the personnel responsible for reporting, and the way in which data must be compiled. The management guidance is supplemented by standard reporting forms, which should help to make data more reliable and up to date, and reduce the chances of funds being diverted to non-priority areas.

The distribution of 1997/98 PHC conditional grant funds among Uganda's districts represents a great improvement over the distribution formulas used by other central government agencies (see section III on decentralisation). Indeed, it is an improvement over the less objective criteria used in 1997/98. The main factor which influences the allocation is population (60% weighting). But more importantly, the formula takes direct account of disparities in socio-economic conditions, using the district-level Human Development Index (20%). Significantly, it also assesses current levels of donor and

---

35 Issues paper prepared for the Equalisation Grant Study's Health Sector Working Group (July 1998), p. 2.

36 Ibid, p. 5.

37 See MoH, *Package of Basic Health Services for Uganda 1997* (March 1998)

NGO spending (20%).[38] This is an important step in the direction of integrated planning, without which efforts to target government expenditure are likely to fail. Reliable and consistent data on levels of donor expenditure are surprisingly difficult to obtain, which is why a specific individual within the MoH was assigned the responsibility of coordinating this information.

Direct Involvement of NGOs

NGOs have been an important presence in the delivery of health services in Uganda since the colonial era. The major players are "mission" hospitals, which have enjoyed a far better reputation than their government counterparts, though anecdotal evidence indicates that this may be changing due to improved working conditions for government-hospital staff. The facilities run by religious groups are organised into national "bureaux": the Ugandan Catholic Medical Bureau (UCMB), the Ugandan Protestant Medical Bureau (UPMB), and the Ugandan Muslim Medical Bureau (UMMB). As such they are reasonably well-placed to act as civil society partners in dialogue with government, in addition to their role as service providers. Representatives of the UCMB interviewed during the field visit termed themselves "very happy" with the government's recent efforts to explicitly recognise their role as major providers of health services, though they would like to see the arrangement move from being what they called a "gentlemen's agreement" to a statutorily governed relationship.

In 1997/98, for the first time in many years, NGO hospitals received direct budgetary support, integrating their activities into national planning for health service delivery.[39] The budgeted amount was relatively small – only UgSh 1 billion out of a total non-salary budget of UgSh 45 billion – but it was an important step forward. In terms of actual releases (as a percentage of budget allocations), NGOs did rather well, compared to, for instance, the PHC conditional grant. In 1998/99 the allocation for NGO hospitals was to almost double, to UgSh 1.923, while NGO health centres at lower levels were for the first time allocated more than UgSh 1 billion.

NGO hospitals have also expressed appreciation with the increased level and quality of consultation on the specifics of health sector reform. The inclusion of NGO hospitals followed a long and interactive process in which the specific strengths of NGO health services were compiled, and the potential payoffs of funding NGOs, in terms of service-delivery improvements, were calculated. NGOs were given a substantial degree of latitude in developing proposals for how their collaboration with government should work. A major fear was of losing their autonomy. Government recognised this concern, and addressed it in two ways.

---

38 This formula is applied only to that portion of the PHC conditional grant which is not earmarked for specific line items, such as the epidemics fund. Issues paper prepared for the Equalisation Grant Study's Health Sector Working Group (July 1998), p. 6.

39 The previous system of "grants-in-aid", inherited from the British administration, had been disrupted during the civil war, was briefly (though erratically reinstated), and then halted completely in the early 1990s. The MoH had continued to provide some support through secondment of staff, for whom the ministry paid government salary rates which NGOs "topped up". Government also provided subsidised pharmaceuticals through the Essential Drugs Programme, which government hospitals received at no charge.

First, the responsibility of devising the formula for distributing grants among NGO hospitals was largely left to NGOs themselves. Factors they considered important were: the number of beds, distance from Kampala, whether a unit was a referral hospital, whether it provided PHC services, whether it accessed Uganda Electricity Board power, and the district human development index. A modified version of their proposed formula was adopted. Second, to avoid the impression – on the part of NGOs, government agencies, and the public at large – that NGO hospitals had become government hospitals, and to make clear what the additional funds were designed to achieve, Service Level Agreements (SLAs) were drawn up with the NGO health units. These detailed the expected impact of government funds.

While there is general agreement that the SLAs served a useful role in catalysing the introduction of the new system, there is some feeling on both sides (among NGO reps and MoH officials) that the agreements are less helpful than they might have been. The MoH has concerns about the level of accountability for the funds disbursed. It also recognises that much of this had to do with the way in which the SLAs were introduced (late in the budget process, with little guidance) and with sheer practicalities (lack of monitoring capacity in MoH, remote locations and poor communications facilities of many NGO hospitals). For their part, NGOs complained about delays in disbursements and the failure of some facilities to receive funds at all.

The positive side of this story is that there has clearly been a process of channeling these concerns into an going consultative process aimed at refining and improving the system. Based on specific comments received from individual NGO hospitals, rather than simply the amalgamated Bureaux, the MoH planning department developed a working document that reviewed progress.[40] This was circulated to all the Bureaux, as well as to a wide range of personnel within the MoH and the Ministry of Local Government. It identified which hospital represented best practice in terms of the way in which the Service Level Agreement was structured, and agreed to circulate this to other prospective recipients of government funding.

In addition to this form of information-sharing, the consultative process also resulted in an agreement to separate the issues of accountability from the SLA. The SLA would provide a comprehensive annual budget, detailing two financial scenarios – one with government funding, and one without. This would allow the MoH to see clearly what "additional funds" would be buying. Once this was done, it was felt that the issue of accountability would be much simpler to address. For instance, if a hospital is privately audited – as many are, due to church rules – then the audit report would suffice for the purposes of promoting accountability. The MoH has made clear that wants to place as few constraints as possible on the NGO sector – a policy which makes sense, given the urgent need to focus attention on monitoring progress in the far more desperate government hospitals. Other issues were to be discussed at such regular events as the annual "budget conference", to which NGOs were invited, and the annual conferences of

---

40 MoH, Planning Dept., "Review of Financial Support to the NGO Sector", February 1998.

the medical bureaux themselves, to which MoH representatives were not only invited, but were expected to address.[41]

Apart from consultation with NGOs themselves, the policy shift towards direct funding of the NGO sector was supported by a substantial fact-finding process. A report on the relative efficiency of government and NGO hospitals, for instance, found that government hospitals spent, on average, 49% more per "activity unit" than NGO hospitals did. Expenditure "per bed" in government facilities was 135% higher (that is, almost 2-1/2 times) than it was in NGO facilities. Though the government admitted that these were "crude" estimates, based on problematic data, they were indicative of the extent of the problem. This study was itself an initiative "from the top", resulting from a visit by the Minister to hospitals in the north of the country, where he observed and commented upon efficiency differences. The crucial decisions were, first, to collect data (however crude) and prepare a report; and, second, to attempt to reward (relatively) positive performance, even if such performance was found outside the public sector. The approach, as informants indicated, was to use the discrepancy in performance to spur "non-market" competition – that is, to fund NGOs, and hold them up as a standard to which government facilities should aspire.

Performance Measurement and Minimum Standards

The MoH has gone much further than other ministries in designing minimum standards for service delivery. It was, for instance, the only ministry to provide a list of such standards for inclusion as an annex of the PEAP. The full institutionalization of this system – all the way down to measuring the performance of individual workers – is still some way off. The lack of a baseline national service-delivery survey (see Section III on decentralisation below for details) is one reason why. Without such a survey, based on agreed measurable indicators, the aim of rewarding improved performance will be impossible to achieve on a large scale and a sustainable basis.

Nevertheless, efforts have been made to test less comprehensive systems. These have themselves been inspired by existing studies, which have received a great deal of attention from MoH officials, representatives of service-delivery NGOs, and a range of policy advocates and political actors. One study in particular appears to have been very influential in stimulating debate – a pilot service-delivery study, conducted during 1995 and 1996, which covered the health and agricultural sectors in nine districts.[42] The main health-service indicators used were:

- the percentage of households using government health services in the previous month;

---

41 MoH, Planning Dept., "Report on Budget Conference for Private Not-for-Profit Hospitals", 22-23 June 1998, Kampala.

42 Anne Cockroft, *Performance and Perceptions of Health and Agricultural Services in Uganda: A Report on the Findings of the Baseline Service Delivery Survey*, (Washington: EDI/World Bank, December 1996). The report was prepared jointly by the World Bank's Economic Development Institute and CIET International, and was funded by UNICEF Uganda and CIDA.

- the percentage of contacts with the health service in which: a health worker was available, the waiting time was less than three hours, and all necessary drugs were available;
- the extent and level of user charges, and willingness of people to pay them; and
- the percentage clients scoring services as "good", "average" or "bad".

The findings of this survey indicated that only 38% of households surveyed considered government health services "good", with the figures for "average" (30%) or "bad" (22%) representing more than a majority of the population (the remainder being in the "don't know" column). Other qualitative data to emerge from interviews indicated a willingness of people to pay modest fees for service, were these to result in concrete improvements in quality of care. The main problem with the service, according to respondents, was a lack of available drugs (31% of households), surpassed only by the "don't know" column (32%). The next closest "perceived main problems" – "access" (9%) and need to pay (8%) – were considered far less important.

Without investing too much hope in the capacity of performance measurements or minimum standards to, in themselves, cure all the problems with Ugandan health policy, they represent important means for operationalising government priorities – particularly the orientation of policy towards the needs of the poor. The MoH has engaged in a process of consultation with health-service providers and district authorities on how a system of performance-related grants (for individual hospitals as well as for districts) might work. It is recognised that this is significantly less than the types of systems that might result were a regularised service-delivery survey to be instituted.

Many of the criteria for this more limited exercise involve measurements that can be easily quantified, even if they do not reach down to the end-user level. For districts, the criteria would most likely involve such key indicators as the "extent of integration of NGO, private sector and community activities into the plan" and the level of "expenditure on PHC from [the unconditional] block grant" – both of which go to the heart of making service delivery more oriented towards the objective of poverty reduction.[43]

For hospitals, criteria are likely to involve assessing whether mechanisms for accountability are in place in particular facilities. One proposed set of criteria included five weighted indicators:

- Financial accountability (25% weighting)
- Submission of financial statements (15% weighting)
- Adherence to MoH expenditure guidelines (15% weighting)
- Progress (during previous year) in terms of improved efficiency (15%)
- Quality of service (30%)

---

43 MoH, Planning Dept., "Discussion Paper: Possible Introduction of Performance Grants in the Health Sector", 1998/99 (March 1998)

While these do not explicitly target poverty-reduction by measuring outreach to the poor or recording the socio-economic status of patients treated, there are reasonable grounds for not doing so: such measures would clearly outstrip the monitoring capacity of either health facilities or the MoH itself. Given the clear indication (from the service-delivery survey outlined above) that lack of drugs is the main perceived problem with health services, the emphasis on financial accountability (the primary reason why drugs are "not available") is probably an appropriate, though indirect, means of addressing the key issues facing the poor.

It is worth emphasising that such performance measurements form a consistent part of the GoU's strategy – found across the policy spectrum – for reorienting management arrangements to contribute to the overall objective of reducing poverty. This discussion of the health sector, though it goes into some detail, is intended to illustrate the application of these broader principles to one policy arena.

The Health Sub-District Concept

Finally, it is worth briefly mentioning the introduction of the Health Sub-District (HSD) concept, since it incorporates each of the three facets of policy reform outlined above. The main impetus for the creation of health sub-districts was to further decentralise the planning and provisioning functions below the district level. This, in turn, was spurred by findings of a widely cited expenditure-tracking study, which reported that only one-third of funds released from the central government to district authorities were actually reaching service providers. The HSD concept was also subjected to a financial sustainability analysis.[44] Moreover, decentralisation to the district level had clearly led to an overburdening of the District Director of Health Services (formerly known as District Medical Officers).

The central idea was to identify one health facility within each "sub-district" – a newly created geographical unit – that would assume leadership in the management of health-service operations in the health sub-district, including supervision and monitoring of other health facilities. Depending on the sub-district, this could be either an existing hospital or an upgraded health centre. There is a clear connection between this approach and the three aspects of health-sector reform outlined in this report:

- The HSD system attempts to break down the divide separating **primary health care** from hospital services, and curative from preventive treatment. "Supervising health units" – that is, the lead facility within each HSD – would be responsible for planning and coordinating all health services.
- It would also, crucially, lead to a **greater involvement of NGO** health centres and hospitals, which would be eligible for inclusion as HSD "supervising health units". Of the 198 planned HSDs, 51 are scheduled to have NGO (or private) hospitals or upgraded health centres as supervising health units.

44 MoH, Planning Dept., "Financial Sustainability of the Health Sub-District Approach" (July 1998), which concluded that, based on a range of reasonable assumptions, the approach was sustainable.

- By decentralising monitoring and supervisory responsibilities, the HSD concept would reduce some of the difficulties in collecting and processing data on service delivery, thus contributing towards the **further implementation of performance measures and the provision of minimum standards**. Again, the system is just getting underway, and it will be some time before the results can be assessed, but it is clearly driven by a desire to improve accountability and to involve local communities. As the concept paper outlining the system states:

> Under the HSD concept the planning and management of health services will take place close enough to the communities to encourage their effective participation in the decisions that affect their health and well-being. Information, education and communication will be provided closer to the community....[45]

In terms of the interaction between issues of governance/accountability and health policy reforms, it is worth noting that the boundaries of newly created HSDs conform to parliamentary constituencies. This is made explicit in the concept paper on the HSD strategy.[46] By repeatedly emphasising in public statements that these supervising health units will be located in each "constituency", the minister of state for health is clearly hoping that both M.P.s and the public will draw the connection.[47] The impact of this linkage is difficult to assess. Certainly in the short term, it has attracted the notice of many M.P.s, who are keen to associate themselves with the creation of the newly assigned supervising units. Whether they will continue to devote attention to "their" units will depend largely on whether the health facilities draw M.P.s into their management committees. There is also the possibility that the influence of politicians will be disruptive. But they can also, conceivably, play a role as an additional channel of "voice", and therefore accountability.

---

45 MoH, *Health Sub-Districts in Uganda: Concept Paper* (March 1998), p. 7

46 Ibid.

47 For instance, his speech at a graduation ceremony at a health centre in Rakai district, reported in *The Monitor*, 1 October 1998.

IV. MANAGING DECENTRALISATION CENTRALLY: PRIORITISING POVERTY-ERADICATION IN LOCAL GOVERNMENT STRUCTURES

Clearly, Uganda's move towards decentralised governance has profoundly influenced developments in the previous two policy arenas: public-expenditure reform has had to reckon with the spending patterns of district and sub-district governments, while changes to health policy have attempted to adapt to the new powers of these local councils. It is the pervasive influence of this fundamental reorientation in the structure of authority – effecting both where decisions are taken and how services are delivered – that requires decentralisation to be assessed separately.

The standard rationale for promoting decentralisation is that local government will provide more accountable governance. In theory, bringing administration and political representation closer to ordinary citizens should make government more responsive to the priorities of local communities, who will have more direct access to decision makers and service providers. Decentralisation, then, is intimately (if indirectly) bound up with the objective of eradicating poverty. To the extent that decentralising government was a deliberate act of national government, it is itself an example of public action for poverty reduction.

In reality, the links between decentralised forms of governance and poverty eradication are far more ambiguous. This is as true of Uganda as of other countries. The overriding problem is that poorer people usually have as little influence in their local settings as they do in the national political arena, and sometimes substantially less. Local authorities often have at their disposal even more resources – symbolic and material – with which to resist efforts to address the needs of the poor, whether these are initiated locally or by national or international agencies. For the most part spatially remote, and thus largely obscured from the scrutiny of either the media or public advocacy groups, local political environments frequently reduce the incentives for elites to reorient their priorities. By multiplying the number of arenas across which state power is distributed, decentralisation severely dilutes the effectiveness of whatever civil society presence might exist at the national level.

The belief that, with time, local authorities can be held accountable thus rests on the hope that decentralisation will generate a supply-side response, in the form of associational activity among social groups affected by government's increasing penetration into local affairs. This is not, in general terms, an unreasonable proposition. But existing studies of civil society in Uganda provide scant evidence that this has yet taken place to any significant degree. As a 1997 study put it, "while decentralisation has reformed the institutions of governance...civil society in Uganda remains weak"[48].

For this reason, it is (paradoxically) to central government that one must primarily look for initiatives to make decentralisation better serve the objective of poverty eradication. There is no shortage of these in Uganda. Effected in collaboration with bilateral and

48 Sabiti Makara, "Institutional Relationships Between Political and Administrative Leaders in the Decentralisation Process", report submitted as part of a Ford Foundation-funded research programme on Civil Society, Decentralisation, and Good Governance, p. 88.

multilateral donors who understand well the constraining logic outlined above, these efforts have achieved mixed results, but possess a number of novel features worth highlighting. The following discussion analyses a selection of these initiatives. It must be emphasised that what is worth noting is the nature of systems for managing the process of decentralisation such that it supports the national priority of poverty eradication. This involves maintaining a balance between local autonomy and central guidance.

Background on Decentralisation in Uganda

It is beyond the scope of this report to analyse the full complement of legal provisions, regulations, political structures, and administrative systems pertaining to the establishment and operation of local government in Uganda. To understand how the system is being geared to support the objective of poverty eradication, however, it is necessary to identify a few salient features of its evolution. Most importantly, the system has been introduced gradually. Political decentralisation preceded administrative decentralisation, which was then followed by partial financial decentralisation.

What this meant it practice was that a pyramid of political structures was put in place before endowing them with a bureaucratic apparatus accountable to them. This began with the creation of local "resistance councils" in the immediate aftermath of the civil war, which were followed by more fully elaborated structures after the introduction of the local government statute of 1993. Even before these were refined in line with the 1995 constitution (by means of the Local Government Act 1997), the government initiated a phased process of delinking administrative personnel from their "parent" ministries and placing them under the control of local governments.

The final stage – of financial decentralisation – was itself introduced gradually. It began with decentralisation of the "recurrent" budget. Uganda's districts were divided into three "batches". In 1995/96, funds for "delegated" services were devolved to batch one districts. In year two, these districts were given an additional "block grant", which was to be spent by them in accordance with local priorities, while batch two districts were given control of delegated services. This process continued until all districts had "control" of both delegated services (that is, funds earmarked for specific purposes – in practice, mostly for salaries of health workers and teachers) and block grants. The discretionary portion of district expenditure – that is, block grants (later superseded in the new nomenclature created by the 1997 Local Government Act by "unconditional grants") – are, on average, less than a third of district spending.

The 1995 constitution provides for the eventual decentralisation of the "development" budget. There are a number of logistical constraints in effecting this, stemming mainly from the nature of the development budget itself, which currently consists of a collection of projects and programmes, mostly donor initiated and 85% donor funded. There are political constraints as well, since many ministers and bureaucrats in the Government of Uganda are loath to part with the power which comes with control over resources. Apart from these brakes on the decentralisation process, there is also a legitimate concern with the "capacity" of local governments – particularly their ability to orient planning,

implementation, and monitoring towards the national policy priority of poverty eradication.

Thus, the stated commitment of donors and the GoU to focus on poverty eradication has created, depending on one's opinion, either: (a) an excuse to halt the devolution of resources to local governments, and thereby further undermine their capacity to meet their Constitutionally mandated service-delivery functions; or (b) an increased willingness on the part of central government to manage decentralisation in ways that assist, rather than hinder, the aim of reducing poverty through accountable governance. The reality appears to contain a little of each. The decentralisation of the development budget, originally slated to commence in 1998/99, has been delayed. A draft of a cabinet memorandum, dated 18 September 1998, indicated that the system of "conditional grants" will remain the norm over the "medium term", while over the same period unconditional grants would be increased to "fund capital development projects in line with local priorities". It is only over the "long term" that decentralisation of the development budget is envisaged. In the meantime, however, a range of capacity-building experiments – funded by substantial amounts of donor assistance – are underway in various districts aimed at preparing them for a much larger future role.

Central Institutions Involved in Decentralisation

It is too early to evaluate the effectiveness of this strategy, but it appears a sensible compromise. As one bureaucrat put it, the GoU's approach to decentralisation is to drive with one foot on the accelerator and the other on the brake. This has been a relatively consistent policy. Among the earliest decisions in this regard was allowing donors to engage in direct financing of district-level activities. The pioneers in this regard were Danida, which developed a multi-sectoral programme in Rakai district beginning in 1991. The aim was to build district-level capacity, while also strengthening the Ministry of Local Government through funding for the Decentralisation Secretariat. In order to build a capacity for collective action among local governments, which would help them in preserving in practice the constitutional powers they possess on paper, Danida also began providing funding for the long-dormant Ugandan Local Government Association, which now has a functioning secretariat that organises public events, disseminates information, and lobbies central government ministries. The UGLA represents a hybrid form of civil society, representing lower-tier governments in a form of private, voluntary association. Its existence is likely to present a useful check on the tendency of central government to usurp the authority of local governments. Irish Aid support to Kibale District follows a model which is similar to Danida programme in Rakai, but is of more recent vintage

Since both of the these programmes were initiated, the formal rules governing relations between levels of government have evolved considerably, most notably as a result of the Local Government Act 1997. Decentralisation has become more institutionally entrenched. At the same time, it has become clear that a range of central government institutions have been empowered – to what degree remains unclear, in the absence of legal challenges – to regulate and/or monitor the conduct of local governments. This means that local governments will be subjected to a range of checks and balances, including regular audits by the auditor general and the imposition of minimum standards

for service delivery, which form a part of the PEAP, and are to be developed in detail by line ministries in consultation with local governments. The introduction of service-delivery standards also involves the Ministry of Public Service, whose ongoing Civil Service Reform Programme includes, among other activities, the introduction of results-oriented management systems.

The Constitutionally created Local Government Finance Commission (LGFC) also has a stake in the development of service-delivery standards, since measurement of service delivery will inform the formula to be used in the (also Constitutionally stipulated) "equalisation grant", a separate form of inter-governmental transfer designed to redress regional disparities. The principle is that districts which fall below the national standard for service delivery should obtain additional resources to enable them to close the gap. The LGFC, a majority of whose members are nominated by local governments (subject to approval by the President) also clearly recognises that such a system could also serve to create perverse incentives – in the form of disincentives to improve service delivery in sectors critical to poverty alleviation. Until a baseline service-delivery survey is completed, the equalisation grant will remain on hold. The formula for decentralising the development budget – in addition to the constraints outlined earlier – also awaits the creation of District Resource Endowment Profiles. Given the number of state institutions with an interest in the outcome of these studies – at central, district, and local levels – it is perhaps no surprise that action has been delayed so long.

Hopes that equity, rather than expediency, will inform this process have suffered a setback of late. The LGFC has taken a step backward in the formula for distributing central government's "unconditional grant" among Uganda's districts. The last version of block grant system, before it was superseded by the unconditional grant, was based on a weighting of factors which clearly reflected a concern with human development indicators. Indicators relating to child mortality and the school-aged population each received a weighting of 40%, while the remaining 20% was divided equally on the basis of population (10%) and a district's area (10%).[49] The unconditional grant system reverted to the earlier practice of apportioning resources to districts on the basis population (85% weighting) and district area (15%).

The Decentralisation Secretariat and the DDP

The most important central government agency in determining the extent to which decentralisation will be able to support efforts to eradicate poverty – with the possible exception of the Ministry of Finance, Planning and Economic Development – is the Ministry of Local Government (MOLG). It produces guidance – in the form of written materials and consultation with local government officials – on how local governments can adhere to the provisions of the Local Government Act 1997. Under subsection 2 of section 79 of the act, the minister of local government is also empowered to promulgate detailed regulations on the operation of local governments. The most far-reaching of

49 See Apollo Nsibambi, "The Financing of Decentralization for Good Governance", report submitted as part of a Ford Foundation-funded research programme on Civil Society, Decentralisation, and Good Governance, p. 120.

these is the Local Governments Financial and Accounting Regulations, 1998.[50] This 354-page document spells out in great detail the procedures to be followed in staffing financial and administrative posts, collecting revenue, procuring goods and services, maintaining records, establishing and accessing bank accounts, making payments, remitting wages, and conducting audits and surveys. The MOLG, through its Decentralisation Secretariat (DS), also provides capacity-building and institutional-development services in the form of training programmes for local government elected officials and administrators. The impact of these interventions – both prohibitory and facilitational – on the quality of governance is as yet difficult to assess. But the emphasis on promoting transparency and accountability is evident throughout.

The most concrete step the MOLG/DS has taken to harness the decentralisation process to the goal of poverty eradication is the creation of the District Development Programme (DDP). The DDP is explicitly designed as a pilot for decentralising the development budget, the aim being to test procedures for participatory planning, allocation and investment management. Funded by the United Nations Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP), it is in this sense donor driven. But in another very important respect it is more than this. This is because the DDP was deliberately formulated to conform to the provisions of the Local Government Act 1997 and the 1995 Constitution – both of which give prominent roles to central government bodies in setting guidelines and monitoring the performance of local governments. The ostensible rationale for this role was the need to ensure that lower-tier governments are accountable to the poor, though the desire for power among senior ruling-party members who hold important posts in the central government should not be discounted as a motivation. Whereas the Irish Aid and Danida programmes in Kibale and Rakai, respectively, "bypassed" the central government by sending funds directly to the districts, the DDP's executing agency is an arm of the central government (the DS). This is appropriate given the role assigned to the DS by the Local Government Act 1997. Moreover, the DDP, unlike the earlier wave of adopt-a-district programmes, does not create separate, parallel organisational structures. It works through existing local government institutions.

The DDP's explicit intention is to create systems of accountability that, because they are consistent with constitutional, statutory, and regulatory provisions, will influence the procedures adopted for regulating the fiscal relationship between levels of government. While there are clear elements of donor conditionality, these are in a sense less "external" than in many other programmes. In working through the ministry of local government, the programme's clear intention is that donor conditionality with respect to procedures and poverty-reduction focus will ultimately give way to central government conditionalities on local governments that reflect the same priorities. As the project document put it, the DDP (which operates in five districts) is "clearly focused on the nation-wide application of the lessons and experiences of the Pilot through the forthcoming devolution of development funds".[51]

---

50 Statutory Instruments Supplement (No. 15) to the Uganda Gazette No. 40, Volume XCI, dated 26th June 1998.

51 District Development Project – Pilot: Project Document, UGA/95/CO1, 24 August 1997, p. v.

Both main components of the DDP – the Local Development Fund and the Capacity Building Fund – possess important features which help to operationalize the national priority of poverty eradication. In order to access resources under LDF, districts and sub-counties must meet a detailed set of criteria, which is meant to assess their financial and auditing procedures, the extent to which they have clearly defined staff roles, and their capacity for planning and engineering (critical, since development funds flow largely to capital investments).

Once funds are accessed, district and sub-county planning, allocation and investment-management functions are subjected to a set of performance measures, which again stress accountability, but also pay particular attention to the district or sub-county's "focus on poverty eradication". In order to score positively on this measure, districts and sub-counties must provide evidence that at least 80% of LDF resources were directed to PPAs. These performance measures, unlike most others so far introduced in sectoral plans, are linked to future resources. The MOLG has carefully worded the "assessment considerations" associated with the poverty-eradication indicator to clarify that it is operating within the Local Government Act: "Under decentralisation, central government can no longer direct councillors to allocate resources according to national priorities. However, it can encourage councils through performance measures".[52]

The MOLG makes its intentions clear by stating elsewhere that the insistence on a poverty-eradication focus, "with incentives for good performance and penalties for poor performance, is to ensure than investments by lower governments are in line with those of the National Government".[53] The performance measurement score at the end of the first year of the programme will determine the funding received in year two. Districts will receive a funding increase of 20% if they receiving a passing score on more than half of the performance measures; a reduction of 20% if they meet less than half; and the same amount if they meet exactly half. The obvious shortcoming of this method is that districts can do extremely poorly with respect to poverty reduction, and yet still be rewarded with funding increases if they receive passing scores on five of the remaining seven measures. While a poverty focus should not be a sufficient precondition for incentive rewards, it should at least be necessary. In addition, a system of rewarding past performance carries the risk of penalising districts with the weakest institutional capacity. This could also be overcome, to some extent, by giving a higher weighting to the indicator which measures the proportion of resources directed to PPAs: maintaining a high percentage of PPA expenditure does not necessarily require particularly impressive capacity.

The Role of Information Dissemination

In addition to the reporting requirements under the DDP, the DS and other arms of the MOLG conduct assessments of the performance of local governments, particularly with respect to the discharge of their financial duties. Again, it will be some time before the impact of these assessments can be properly evaluated. The information generated through these assessments, however, is of immediate practical value – in two ways.

---

52 Ministry of Local Government, *Sub-County Performance Measures for the Local Development Fund*, p. 8.

53 Ministry of Local Government, *District Performance Measures for the Local Development Fund* (n.d.), p. 13.

First, the analyses performed by MOLG or DS help to identify deviations on the part of local governments from national policy priorities or accepted procedural norms. These are distributed widely to central government departments, local governments themselves, civil society organisations, parliamentarians and the donor community. Two recent publications, which are scheduled to be updated on a regular basis, serve as a sort of "report card" on the planning function performed by local governments. The first, the DS's *Status Report on the Implementation of the Decentralization Programme*, while also serving as a semi-annual report of the DS's own activities, assesses the financial performance of district councils during the previous fiscal year.[54] MOLG officials expressed the hope that, in addition to shaming poorly performing local governments, the indicators used in preparing the report will contribute to the methodology eventually to be developed by the central government bodies charged with determining how national resources would be shared among Uganda's 45 districts.

From the perspective of mainstreaming the national government's stated priority of eradicating poverty, the indicators used in these exercises represent a welcome step forward. They not only evaluate activities indirectly related to poverty reduction – such as the quality of auditing procedures and the functioning of District Tender Boards – but also pay close attention to districts' performance in terms of budgeted expenditure on poverty-measures. The fourth question/indicator asks: "Were the PPAs adequately provided for?" One drawback to the structuring of this indicator, however, is that it is not assigned a specific score for weighting within the entire inventory. Rather, PPA provision is one of five indicators folded within the "Budgeting" category, which receives an aggregate weighting of 15% in determining a district's final score for "financial management". Compensating for this somewhat is the inclusion of a separate indicator for whether expenditure is "done in accordance with the budget". This recognises that budgets do not always reflect the actual expenditures. The next step, which is under consideration by the Local Government Finance Commission, is to incorporate a "downstream" link in the chain of accountability – that is, to conduct a baseline service-delivery survey which could then be periodically updated to assess the views of ordinary citizens.

The "upstream" link in the chain, of course, relates to central government disbursements to local governments. The MOLG has managed to retain its status as a somewhat honest broker between the central government and local governments by focusing attention on the performance of the MFPED in delivering on its budget promises in programme areas directly related to poverty eradication. Alongside the report card of district financial management for 1997/98, the MOLG has indicated the percentage of budgeted funds for specific line items which was actually disbursed to local governments over the course of the preceding financial year. The report revealed that only 67% of the budget allocation under the primary health care conditional grant was actually disbursed to districts. Further, while government hospitals received 93% of the budget allocations, NGO hospitals received only 76%. Under the feeder roads maintenance conditional grant, the

---

54 Ministry of Local Government, Decentralization Secretariat, *Status Report on the Implementation of the Decentralization Programme for the Period 1st January - 30th June, 1998* (Kampala, July 1998), pp. 14-15 and Appendix 9b.

centre released a meagre 21% of the budget allocation, though this shortfall was due largely to the failure of local governments to fulfill the conditions set by the Ministry of Works.[55]

The second MOLG publication which assists in keeping poverty-reduction at the centre of the policy agenda, *Analysis of Districts' and Urban Councils' Budgets for 1997/98 Financial Year*, is also planned as an annual exercise. One of its main objectives is "to ascertain whether Districts have adequately addressed Priority Programme Areas".[56] Presented in tabular form, the comparisons among districts reveal striking contrasts. PPA allocations range from a high of 55% in Gulu district, to a low of 1% in Rukungiri district. The analytical section of the text, however, helps to place these statistics in perspective. In violation of the law, the districts with the two highest proportions of PPA allocations – Gulu and Kotido – presented deficit budgets. In reality, then, the PPA allocations are not likely to be available. It is also worth noting that there is in fact a poor correlation between levels of donor funding and proportion of PPA budget allocations. Of the eleven districts with the highest proportion of donor funding (as a percentage of the district budget), only three have PPA expenditures (again, as a percentage of the national budget) which are above the national average of 22% – and two of these are the two budget-deficit districts mentioned above. In fact, the top three donor-funded districts of Rakai (72% of district revenue), Lira (68%) and Masindi (66%) are all near the bottom of the league table in terms of PPAs as a percentage of total expenditure – with 7%, 5%, and 6%, respectively, going into these critical areas.

Releasing information of this sort is a positive step in the direction of transparency, allowing a range of actors to bring pressure to bear on governments at various levels to improve their performance. The failure of the central government to live up to its funding promises, for instance, has been commented upon in the press[57] and in parliament. Since the data is provided by an arm of the central government – the MOLG – public critiques based on it have greater weight, and cannot easily be dismissed as politically biased. At the district level, however, the impact remains rather weak. The Chief Financial Officer of Mukono district, for instance, was unaware of his district's "financial management" ranking until it was brought to his attention by the consultants during a field visit.

V. MICRO FINANCE FOR THE POOR

Currently Ugandan smallholders and urban and rural micro-and small entrepreneurs have hardly any access to appropriate forms of financial intermediation. This is one of the most serious constraints on their productivity and locks them into the low-production, low-consumption cycles which characterise generalised poverty in Uganda. A joint government and NGO-initiated consultative process is now underway to create an enabling regulatory environment for the expansion of micro-finance institutions to serve the smaller producers in the farm and off-farm sectors. This process addresses two

55 Decentralization Secretariat, *Status Report on the Implementation of the Decentralization Programme*, pp. 9-10.

56 Ministry of Local Government, *Analysis of Districts' and Urban Councils' Budgets for 1997/98 Financial Year* (Kampala, May 1998), p. 1.

57 See, *The Monitor*, 28 August 1998.

problems: the constraints on the expansion of private sector micro-finance institutions and services under current financial sector regulations, and the 'credit pollution' – or distortions in the rural savings and credit culture – caused by the government's past involvement in credit programmes.[58] The first problem stems from an incompatibility between the regulatory environment and the government's poverty eradication goals; the second has prompted efforts to learn from past mistakes.[59]

Background on Microfinance in Uganda

The regulation of the financial sector is characterised by a vigorous pursuit of the stabilisation-inspired Financial Sector Review Programme of 1993. This has strengthened the formal financial system by withdrawing government's equity participation in a sector characterised by a lack of depth, lack of competition, and over-priced financial intermediation. In particular, this has meant the closure, restructuring, and sale of some insolvent banks, particularly the large Uganda Commercial Bank in 1997/8, including the closure of most of its non-viable rural branches, leaving a serious gap in commercial banking facilities in rural areas. These bank branches never did cater to the needs of poor producers in the micro and small enterprise sector, nor did they ever effectively finance smallholder agricultural production. However, closure of these bank branches created public anxiety about the provision of banking services in the rural areas. This has also prompted intensifying scrutiny and criticism in Parliament of the impact of the Bank of Uganda's tight financial sector control on rural financial intermediation.

Micro-finance institutions have been multiplying in Uganda over the 1990s, but their capacity to pick up the slack in rural banking has been limited by the Financial Institutions Statute of 1993 which prohibits non-bank institutions from reinvesting mobilised savings (for instance, the Uganda Women's Finance and Credit Trust holds over one million US dollars in savings which it cannot on-lend, and FINCA holds almost as much). MFIs are also prohibited from accepting deposits from the investment community, except for loans from equity banks. These prohibitions constrain the capacity of MFIs to mobilise resources for development, making them highly dependent on donor funds, limiting the range of financial services they can supply to clients, and constraining their expansion. According to data collected by the Micro and Small Enterprises Policy Unit of the Ministry of Finance, Planning and Economic Development (MSEPU/MFPED), there are 79 MFIs with 50,000 borrowers (70% are women) and 135,000 savers.[60] They serve just a fraction of the demand for micro-finance – MFPED sources indicate that there are about 800,000 off-farm micro and small enterprises in the

---

58 GoU, "Proceedings of the Uganda Workshop on the National Policy and Strategic Framework for Micro and Rural Finance – May 5 - 8, 1998", (Kampala, 1998), mimeo.

59 Government officials and politicians have been quite explicit about this. Vice President Specioza Wandira Kazibwe, in a speech at a celebration rally in Kampala by women borrowers of FINCA (Foundation for International Community Assistance) explained that new regulation to liberalise the environment for micro-financial institutions was initiated by government 'after it realised it was a poor business manager' ('FINCA small loans to benefit 16,000', *The Crusader*, 22 September 1998). The speech was delivered by the minister of state for Entandikwa, one of the government's least successful forays into micro-credit.

60 These figures exclude the MFIs disbursing credit from the government's Entandikwa and Poverty Alleviation Programme schemes.

country, and fewer than 7 % have access to financial services. MFIs are unevenly distributed in the country, concentrating on urban areas. The estimated size of the total outstanding loan portfolio of non-government MFIs is about US$ 10 million, a very small proportion of which (5%) goes to agriculture and livestock production.[61] The USAID-funded PRESTO project (Private Enterprise Support, Training and Organisational Development), which invests in capacity-building in the MFI sector, has shown that most local MFIs have not been able to mobilise substantial savings, which are estimated at US$ 12.3 million.[62]

The government itself has experimented in credit delivery both indirectly and directly, but, as in many other countries, these schemes have distorted the growth and sustainability of the micro finance sector. Regional development schemes such as the Northern Uganda Rehabilitation Project (NURP) and the South Western Agricultural Research Project (SWARP), as well as the Cotton Subsector Development Programme and the UCB's Rural Farmers' Scheme, have extended credit to farmers, but these programmes have been characterised by high delinquency rates. In 1994 a facility for indirect credit provision was created – the Poverty Alleviation Programme (PAP) – which has been rather more successful. By September 1998 its active loan portfolio was being distributed through 60 grassroots NGOs to 21,000 borrowers, 60% of them women, with a recovery rate of 93%. But the regulatory constraints on the operations of these grassroots MFIs have limited effective use of PAP funds, prompting PAP to go so far as to seek to terminate its identity as a government institution and constitute itself as a private-sector MFI. As such, it was one of the parties initiating the current process of revising the regulatory framework.

PAP's good work, and that of private sector MFIs, was damaged by the government's 1996 national 'Entandikwa' (Seed Capital) scheme. This disbursed US$9.92 million of the government's own revenues to 39,000 clients. Loans were disbursed by local politicians in an election year, and managed by NGOs with no experience in micro-finance, in a programme with no savings component to anchor loans. Entandikwa is widely considered to have been disastrous not only from a financial perspective (generous estimates put the recovery rate at 50%), but from the point of view of distorting credit discipline in an already weak savings and credit culture.[63] This has contributed to already fairly conservative practices among private-sector MFIs, whose very short term loans (4 to 6 months) with no grace periods mean that there is very little appropriate micro credit

---

61 GoU, MSEPU/MFPED, National Technical Committee, *Coordination of Microfinancing Initiatives*, September 1998, p. 5.

62 USAID – PRESTO Project, *Directory of Micro-Finance Institutions in Uganda* (Kampala: PRESTO Centre for Microenterprise Finance, December 1997).

63 The Entandikwa programme, which was shunted from the Ministry of Finance to the Ministry of Gender, Labour and Community Development in the June 1998 rationalisation of ministries, continues to be very politicised. The programme's managers have begun a concerted effort to recover loans, but prospects of effective recovery are low. As one government official put it, "They have to do it to say they are doing it but they won't do anything before the referendum [on multi-partyism]." Several observers from private sector MFIs said that it is impossible to sever links between Entandikwa loans and the political process: collection attempts are not made before passing the list of defaulters to the RDC (Resident District Commissioner), the central-government appointed representative at the district level who is widely viewed as the political agent of the National Resistance Movement's "high command" – its "eyes and ears" in the districts. RDCs have the de facto authority to exclude certain clients from recovery attempts.

for agricultural production. The government's experiences in micro-finance have also lead it to conclude that it should withdraw from direct and indirect delivery of credit, and concentrate instead on:

- creating an enabling environment for MFIs to mobilise and utilise savings,
- mobilising resources for the micro finance sector, and
- creating incentives for MFIs to serve isolated districts and to diversify their product range.[64]

Stakeholder Participation in Creating a Conducive Regulatory Framework

A broad consultative process on means of improving informal sector and rural financial intermediation through micro-finance initiatives has been initiated by various actors in the sector. A National Technical Committee for Coordination of Micro Financing Initiatives was established in 1997 at the MFPED to bring different practitioners and donors (including 'capacity-builders' such as PRESTO or the UNDP's Private Sector Reform Programme) together with MFPED and Bank of Uganda officials. At the same time, the Bank of Uganda began a consultative and research-based approach to designing a suitable supervisory framework for MFIs, which will be expressed as a new law to govern the micro-financing sector. NGOs have been proactive in creating their own platform – the Association of Micro Finance Institutions of Uganda (AMFIU, inaugurated in February 1997) – from which to identify the shared interests which they can promote in these consultations. It has a membership of 50 MFIs of all sizes, spread over the country.

These consultations are intended to design suitable new legislation for MFIs. The government has three broad concerns:

- to protect savers' deposits and generally ensure prudential operations leading to financial sustainability;
- to see better coordination and information systems across the MFI sector; and
- to promote capacity-building and competent management in individual MFIs.

This latter concern relates not just to financial performance, but to client outreach in less well-served regions, diversification of products, and achievement of economies of scale through more extensive operations.

The Bank of Uganda has been responsible for designing a rating and supervisory system to ensure prudential operations, but the government has limited capacity directly to promote the other two goals – coordination and capacity building – except through establishing appropriate legal status and ownership structures for MFIs to help improve the quality of governance in these institutions. There has been some discussion of

64 GoU, MSEPU/MFPED, *Coordination of Microfinancing Initiatives*, p. 10.

creating incentives for MFIs to serve remote regions, and to develop lending systems to finance agricultural investment, but no specific incentives have been agreed yet.

The concerns of private sector MFIs who are participating in the micro-finance sector reform are to have:

- access to savings and to capital markets;
- minimal levels of supervision to keep out fraudulent operators;
- a more efficient legal system to enforce contract law and to enable pursuit of defaulters through small claims courts; and
- support for capacity-building and coordination.

Regulation and supervision is usually not desired by MFIs – it spells control – but in this case they are anxious to promote liberalisation in their own operating environment. Those who have participated in the consultation process identify a qualitative change over time in the willingness of government actors, particularly the Bank of Uganda's Supervision Department, to accommodate their interests and to move out of what one MFI-based observer called its 'conservative cocoon'.

Private-sector MFIs have been particularly impressed by the Bank's willingness to experiment with 'action research' as part of its learning process on the regulatory needs of the micro-finance sector. At the initiative of its Governor, who has a particular interest in micro-finance,[65] the Bank has gone as far as creating a micro-finance pilot programme: the Uganda Microfinance Union (UMU) in Luwero. The Bank runs this programme in partnership with Brandeis University's Sustainable Development Programme, and funds it through its Development Finance Department. In nine months of operation UMU had formed 64 groups of 5 borrowers each, and had achieved a 99% recovery rate on loans bearing a 42% interest rate. This experiment enables the Bank's Supervision Department to draw practical lessons about current constraints on the efficiency and expansion of the sector. In addition, the Bank conducted a survey of 25 MFIs operating in June 1997 to gain perspective on the variety of approaches to micro finance.

On the basis of these studies and consultative processes, the Bank has come up with a draft rating system for MFIs with indicators for financial soundness based on capital, quality of assets, profitability, liquidity and management.[66] The Bank has also made recommendations on capacity-building, governance, management and ownership, and coordination. MFIs are not entirely happy with the 'first draft' of the legal and regulatory package the government is proposing. In the view of some MFI operators, the Bank of

---

65 This was expressed in considerable detail in a speech delivered at Brandeis University (Waltham, Mass., USA) in May 1997: C. N. Kikonyogo, "Reaching the Poor Through Micro-Credit Institutions and Programs: A Central Bank Perspective", (mimeo), Bank of Uganda, and also the "Speech by Mr. C.N. Kikonyogo, Governor of the Bank of Uganda – On the Opening of the Co-operative Bank's First Micro-Enterprise Agency Office", Bank of Uganda, 1997 (mimeo).

66 Minimum paid-up capital for an MFI, including its outstanding loan portfolio, should be 20 million shillings; a core capital requirement of 4% should be maintained at all times; minimum liquidity requirements are suggested at 15%; and profitability and efficiency ratios should be indicative and not fixed. MFIs should be free to set their own lending interest rates.

Uganda has in effect come up with a relaxed version of the supervisory system for commercial banks, and still has not appreciated some of the operating constraints and advantages peculiar to MFIs. The following points summarise some of their concerns:

- *Risk weightings.* These have been set at about 50% for MFI loans, which MFIs feel is too conservative. They point out that since their approaches to organising loan delivery and recovery generate repayment rates between 95 to 100%, then even a relaxed version of the 'risk cautions' on commercial loans is unfair. With such high repayment rates, risk weightings should be closer to zero, but MFIs are willing to accept a 25% weighting.
- *Capital requirements.* Related to the above point, MFIs feel that capital requirements at 50% of the loan value to guarantee loans are too stringent.
- *Ownership structure.* The government has proposed that MFIs wishing to incorporate as banks should become shareholding companies on the assumption that a clear ownership structure will enhance the quality of bank governance. But most of the larger local MFIs in Uganda are companies limited by guarantee. They are not convinced that converting to shares-based ownership will do anything but situate ownership in an urban elite who may not keep the interests of the poor in mind. Some MFIs will pursue the option of becoming a holding company – PRIDE Africa for example will hold all shares for its Uganda operation.
- *Supervision.* There is still confusion as to the nature and institutional location of supervision for MFIs which will not incorporate as banks. There is general agreement that only two MFIs in Uganda are currently ready to operate as banks: FINCA and PRIDE. The rest will be licensed but need considerable capacity-building to meet the performance standards which will allow them to qualify to on-lend savings and to access funding from institutions other than aid donors. The Bank of Uganda does not have the capacity to provide this level of supervision, and the only other obvious candidate, the MFI umbrella body AMFIU, is still too small and new to provide a substitute.

New legislation on micro-finance operations was to have been presented to Parliament in July 1998, but continuing negotiations and discussions over the above and other points of difference between the government and MFI providers have held up the process of finalising a law. MFI practitioners are not disturbed by this delay, and indeed, are pleased to see the government taking the time to properly negotiate, rather than rush, the new regulations. As a report from the MFPED notes: 'MFIs and the people of Uganda need good legislation, not quick legislation.'[67]

The Role of Apex Bodies

Some MFIs are particularly pleased about government proposals to license Apex bodies to mobilise capital from various sources and channel it to MFIs in order to help diversify sources of MFI funding. Such Apex facilities would be able to finance MFIs' lending

---

67 GoU, MSEPU/MFPED, *Coordination of Microfinancing Initiatives*, p. 15.

operations until such a point as they are able to achieve financial sustainability by on-lending their savings. Currently the only institution which provides this sort of service is the Bank of Uganda's Development Finance Department, which has been totally unsympathetic to the financing needs of MFIs. The government has still not pronounced on a number of aspects of the functioning of the proposed Apex body or bodies, including its ownership structure (including the respective roles of government and the private sector); the nature of the services provided by the Apex (grant, loan, equity participation, or even capacity building); and whether the government would engage in providing partial loan guarantees to encourage the build-up of leveraged credit lines to MFIs.[68]

In the meantime, a candidate for the first Apex facility has nominated itself from an unlikely source. The government's Poverty Alleviation Programme has approached the President in its efforts to become a private corporate body and to constitute itself as the country's first Apex facility for MFIs. Since March 1998 PAP has been experimenting with wholesaling funds to the Uganda Women's Finance and Credit Trust for on-lending, and it is keen to wholesale more of its 10 million US$ funds from the Asian Development Bank to other MFIs for retailing. Although PAP has been nurturing an interest in delinking from government for some time, its efforts to privatise itself were suddenly galvanised in June 1998 when it was under immediate threat of being transferred from the Prime Minister's Office to the Ministry of Gender, Labour, and Community Development. Recent dramatic staff and funding cuts at that Ministry, and its constitution as a repository of some under-functioning government programmes, including Entandikwa, add to the growing perception that it is a bureaucratic backwater. PAP is now extremely anxious to forestall a transfer to that Ministry, and to challenge any assumptions that it is a 'welfarist' safety-net programme as opposed to an efficient private sector-support operation.

Financing Agricultural Development – A Missing Element

Government accounts of the process of revising the regulatory framework for micro-finance refer frequently to the need to support agricultural investment. Although 15% of MFI loans go to supporting production of particular crops (for instance coffee or vanilla), very little indeed goes to agricultural modernisation such as creating irrigation systems, anti-erosion measures, agricultural infrastructure (feeder roads or markets), or even land rental, purchase, or clearance. Unfortunately, the partners in discussions of a suitable framework for micro-finance operations have so far avoided detailed discussion of ways of satisfying the banking needs of smallholders. This is a serious omission, given the centrality of agricultural modernisation to the national anti-poverty strategy. Thus, while the MFPED talks of the need for 'positive incentives for MFIs that support agricultural lending'[69], it has not yet detailed what those incentives might be.

The capacity of the current parties in the negotiations over a regulatory framework to address farmers' financial needs is limited by the constituencies they represent. The Uganda Farmer's Association has not been involved in the negotiations. Observers point

---

[68] Ibid, pp. 26 and 29.

[69] Ibid, p. 15.

out that it might not be the most appropriate institution in any case, since it does not really represent poorer farmers, and its main interests in credit are to see a revival of the subsidised schemes from which its members benefited in the past (such as the bankrupt Rural Farmer's Scheme run by the UCB). However, for this very reason its members need to be involved in the process of putting rural finance systems on a more sustainable footing. The Ministry of Agriculture has not been involved in the negotiations. Existing MFIs are not necessarily good representatives of the interests of small farmers, as these are not the majority of their clients. Indeed, MFI operators in rural areas who were approached for this study claimed that they currently actively discourage agricultural loans because they carry such a high risk. This situation is an illustration of a common problem in ensuring that the rural poor, key stakeholders in discussions about rural financial intermediation, are adequately represented in policy discussions. They are poorly organised, and are in effect excluded.

Remaining concerns: the politics of rural credit

The policy processes described above are likely to greatly improve the capacity and outreach of MFIs in Uganda. MFIs, however, retain some anxieties about the political environment for greater credit and savings discipline in Uganda because of the history of politicians manipulating rural credit to serve populist agendas. Politicians are fully appreciative of the political mileage which can be gained from cheap (or nearly free, as in the case of Entandikwa) credit. They occasionally complain in public about the 'high' interest rates charged by MFIs, with little understanding of the risk premium involved. They grumble about the reluctance of MFIs to set up facilities in more remote areas. Their interest in the whole issue of banking and rural financial intermediation has been sharpened in 1998 by two events: first, the closure of UCB's rural branches, and second, the Bank of Uganda's intervention to close several Kampala-based commercial banks in September 1998 (The International Credit Bank and the Transafrica Bank). The latter event triggered off a minor public panic over the health of the banking system, and added to an already heightened level of Parliamentary scrutiny of the Bank of Uganda's policies. In a Parliamentary consultation session in July 1998, for instance, the Governor of the Bank was put under pressure by the second Deputy Prime Minister to explain the persistence of poverty in spite of economic growth, to show how rural banking needs would be satisfied in the absence of the UCB's branches, and to justify the Bank's refusal to bail out Entandikwa or to waive interest rates to farmers.[70]

Thus MFIs have some concerns about the passage through Parliament of the legislation which is eventually agreed through the current consultative process. Above all, they do not want to see some form of usury law which will put a cap on the interest rates they can charge. They also want to avoid pressure to service more remote areas, where profit margins are significantly lower. When the new law is presented and passed, the level (or rather, absence) of constraints of these kinds in the legislation will be an indication of the degree of political commitment to poverty reduction. However, there is clearly an important role for state incentives to MFIs to service farmers and remote borrowers. MFI

70 Confidential memorandum, recording a meeting between the Second Deputy Prime Minister and the Governor of the Bank of Uganda, 29 July, 1998.

providers would prefer to allow the market to direct the extension and diversification of their services – but even the micro-finance market provides poor rewards for servicing the geographically isolated and asset-deprived producers who most need its services.

APPENDIX I

TERMS OF REFERENCE

CREATING A FRAMEWORK FOR REDUCING POVERTY: INSTITUTIONAL AND PROCESS ISSUES IN NATIONAL POVERTY POLICY IN SELECTED AFRICAN COUNTRIES

BACKGROUND

1. The Special Programme of Assistance (the SPA) is the donor forum which co-ordinates support to the economic reform programmes of low income, debt distressed African countries. The SPA donors have agreed that poverty reduction should be the central objective of the fourth phase of SPA, which covers the 1997-99 period. The poverty and social policy working group (PSPWG) of the SPA has the main responsibility for advising on how to implement this commitment to place poverty reduction at the centre of donor supported economic reform programmes

2. In carrying out this task, the PSPWG recognises the need to closely involve and learn from our partners in African Governments.

OBJECTIVE

3. The objective of the study is to review the process by which policies relevant to poverty reduction are formulated, implemented and reviewed in a sample of African countries, in order to learn lessons by comparing and contrasting different country approaches, and to identify examples of current good practice. The focus of the study will not be on the content of policy, but on identifying institutional and management arrangements to support a more effective approach to reducing poverty.

SCOPE OF THE WORK

4. The study will cover six or so African SPA countries selected because they have useful experience of designing and implementing either an overall anti poverty strategy, or major structural policy reforms with poverty reduction as a core objective. The countries to be covered will be agreed with the sponsoring donors before commencement of the study, but should include both Anglophone and Francophone countries. Possible countries might include Malawi, Zambia, Ghana, Mozambique, Tanzania, Ethiopia, Uganda, Mali, Burkina Faso, Benin, though consultants are free to propose alternative SPA countries.

5. In each country, the consultants will review key aspects of Government policy bearing on poverty, with a central focus on the process of policy formulation, covering overall economic and social development policies but with the focus on the macro and national levels of policy reform rather than intra-sectoral issues. The consultants will be expected to take into account different social groups among the poor in their

analysis – whether constituted by gender, ethnicity, regional or other attributes. The poor are not a homogenous group in any country and specific policies and processes will impact on different groups in varying ways. The consultancy will particularly focus on:-

- the processes for gathering and analysing relevant information, and mechanisms for ensuring that the analysis informs and influences policy formulation.

- processes for consultation with interest groups, including gathering information on the perceptions of different groups at risk of poverty, and the effectiveness of mechanisms by which stakeholder views are taken into account. Specific groups of the poor (by gender, age, region etc.) which are more or less included/excluded in processes of consultation should be identified.

- the constitutional, legal and governance framework within which civil society institutions of most relevant to the poor are able to operate, and the implications for the influence of the concerns of the poor on policy and practice. This should include reforms to political, legal and institutional structures to give more control over resources and over decisions affecting them to the poor. The degree of decentralisation in the economy should be analysed as well as the ways in which customary/informal leadership structures are incorporated into government policy-making.

- processes for decision making. This will consider who is involved in decisions including the role of those who must implement them and the other stakeholders involved, how decisions are made and communicated, how they are given effect e.g. in the legislative and regulatory programme and in the allocation and management of resources, how the results are monitored and implementing agencies held responsible for results achieved.

- the institutional arrangements. This will include analysis of the institutions involved at local and national level and including formal and informal community based organisations, their responsibilities, the skills they need, how they are organised and financed, and how they relate to each other in undertaking the key functions identified above. The analysis should also focus on how institutions integrate their decision-making processes with the norms and practises that have their basis in customary or indigenous institutions. The consultants should also report on any lessons to be learned from efforts to create sustainable capacity within the relevant institutions.

6. A key judgement for the consultants will be how to maintain an exclusive focus on the issue of poverty policy, while recognising the broader institutional and Governance framework within which decisions are made and implemented. In each country, the consultants will identify lessons which may be learnt from aspects of the approach which the Government has taken to the processes and management systems by which poverty policy is developed, implemented, and reviewed. It is recognised that virtually all policies are in some sense relevant to poverty reduction, and that poverty

issues are embedded in broader economic and social policy: there may be no such thing as a policy on poverty as such. The focus of the study, however, should be on identifying approaches to enable Governments to organise to ensure that the interests of the poor are taken into account and acted upon. A key criterion in selecting countries for study will be to identify for study Governments which have demonstrated by their actions a significant commitment to improving the poverty reduction impact of their policies and programmes.

7. The study is not expected to undertake original research into the impact of policy reform on poverty. The main contribution from the study will be to review the approaches which different countries have taken to the formulation, implementation, monitoring and review of policies bearing on poverty, and to make information on those experiences and the lessons which can be derived from them more widely available. Information on final impact will therefore be limited to a brief overview of findings based on secondary sources. It is recognised that this implies that judgements on good practice will be tentative, and largely based on assessment of whether the process is producing well-informed policy decisions linked to realistic action to implement them.

8. The output from the exercise will be:-

i. A report which will focus on what can be learned from the way in which different countries have organised themselves to address poverty reduction as an objective of public policy. It should mainly take the form of presenting case studies of particular experiences and approaches likely to be of interest and use to other African countries facing similar issues. The report should not attempt to provide a comprehensive evaluation of poverty policy in each country, but will provide sufficient background to make the analysis comprehensible. The report should also identify the conditions, in terms of institutional structures in civil society and their relationships with governments, which make processes which take account of the interests of the poor in policy formulation more likely to evolve. The intention is that the report should form the starting point for a collection of case studies on aspects of poverty policy, a collection which might be subsequently expanded. Particular care should be taken to devise a presentation which is reader friendly and enables sections of the report bearing on specific issues to be swiftly identified whether in paper or electronic format.

ii. The final report should include an overview chapter, in which the consultants will have the opportunity to highlight any general lessons which emerge from their study.

iii. The consultants will identify, in a separate document, Africans closely involved with some of the more interesting and innovative experiences covered in the report, and who would be willing to make presentations based on their experience to a subsequent workshop or meeting of the PSPWG to which both donor and African participants would be invited. The consultants would also be asked to make a presentation of their overview chapter to the same meeting.

9. The consultants will be given considerable flexibility to decide which aspects of the policy process bearing on poverty are of greatest interest in each country, but the emphasis throughout should be on the processes and institutions supporting national level strategy.

SKILLS REQUIRED

10. The consultancy team will have substantial relevant experience of the analysis of policy with respect to it's impact on poverty, will include members with skills in institutional, economic, and social analysis, and at least one national of the country will be involved in each of the country studies. Each country visit will be lead by a consultant with sufficient seniority to be a credible interlocutor for African officials dealing with policy formulation at the highest level. The team will have direct experience of Africa, including recent knowledge of policy development in some of the countries to be covered by the study. If the study is contracted to a European based consultant, they are encouraged to work in collaboration with an organisation based in Africa.

CONDUCT OF THE WORK

11. It is recognised that the potential coverage of the study is wide, and it will be important to narrow the focus of the study at an early stage. There will therefore be an inception phase, during which the selected consultants will undertake an initial trawl of relevant literature, and will consult the sponsoring donors and the World Bank in Washington to discuss recent policy developments in each country. The inception phase will enable the consultants to obtain an overview of poverty policy in each country, and to select for each country the topics on which the remainder of the study will focus. These topics should be discussed and agreed with relevant authorities within the country. An inception report with proposals for the conduct of the remainder of the study will be prepared within one month of the starting date of the study. The main study will require a more focused review of the literature on each country, and a visit by the full country team. Respondents will institute a Steering Committee of academic and donors which will meet for two (1 day) workshops, the first will be held to discuss the inception report and the second will be held when the draft final report is completed.

12. It is for the consultants to make a reasoned proposal setting out the inputs which they believe will be required in order to complete the assignment, but it may be helpful to provide an indication of the scale of effort which is envisaged. The inception phase is expected to require approximately 15 days of senior consultant time overseas plus 15 days of senior consultant time and 30 days of research assistant time in the consultants' home base. Each country study is expected to require 30 days of overseas time from the expatriate consultants, plus 15 days from a locally based consultant, and a further 5 days of research assistant time to track down literature. Report writing and responding to comments on the draft is envisaged to need a further 45 days or so. This suggests that the consultancy may need of the order of 350-400 person days to complete, of which around 250 days of expatriate consultancy time,

roughly 90 days inputs from African consultants, and the balance from research assistants.

13. If the proposed workshop goes ahead, attendance by the consultants will be separately contracted.

REPORTING

14. DFID will take responsibility for managing the study on behalf of the sponsoring donors. The consultants will provide an inception report within three months of starting work, and a draft final report within six months of receiving approval of the interim report. They will provide five hard copies of the inception and draft final reports, and will also e-mail copies to addressees to be specified by DFID. The sponsoring donors will provide written comments within two weeks of receipt of the inception report and within three weeks of receipt of the draft final report. The consultants will revise the draft final report to take account of comments, and provide fifty hard copies of a final report, plus e-mail copies to specified addressees, within a further three weeks of receiving the comments.

APPENDIX II

List of Persons Met During Field Research – 11 Sept - 1 October 1998

Government

Ministry of Finance, Planning and Economic Development:
Keith J. Muhakanizi, **Commissioner, Economic Development Planning (NPA)**
Damoni Kitabire, **Director, Economic Affairs**
Mary Muduuli, **Budget Director**
Florence Kuteesa, **Acting Commissioner, Budget Planning**
Francis Tumehirwe, **Asst. Commissioner, Economic Planning**
Margaret Kakande, **Poverty Analyst, Poverty Monitoring Support Project**
Pauline Akidi, **Infrastructure Desk Officer**
Leonard Okello, **UPPAP Co-ordinator (Oxfam)**
Martin Brownbridge, **Macroeconomic Advisor (DfID)**
H.N. Nayer, **Fiscal Federalism Advisor (IMF)**

Ministry of Public Service:
George Okutho, **Economic Adviser, Public Service Reform Programme**
John Ashton, **Advisor, Civil Service Reform Programme**
Chris Burgess, **Advisor, Civil Service Reform Programme**

Ministry of Education:
Samuel Onek, **Assistant Commissioner, Planning**
Joseph K. Mugambe, **Head of Statistics and Data Processing**
Dr. Tabare, **Curriculum Development**

Ministry of Health
Sam Agatre Okuonzi, **District Health Services Manager**

Ministry of Works, Transport, and Communications
John Nasasira, **Minister**

Decentralisation Secretariat
Ben Kumumanya, **Training**
Martin Onyanch-Olaa, **DDP Coordinator**

Local Government Finance Commission
Dick Odur, **Equalisation Grant Study**

Inspectorate of Government
Mathias Tumwesigye, **Director of Education and Prevention of Corruption**
M. Abon, **Principal Inspectorate Officer**

Poverty Alleviation Project, Office of the Prime Minister
Henry Bagozonzya, **Programme Director**
Francis Wandira, **Social Worker/Sociologist**

Bank of Uganda
Polycarp Musinguzi, **Director, Research Dept**

Uganda Vision 2025, National Long-Term Perspective Studies
Salim A. Bachou, **Project Coordinator**
Richard J.K. Kwizera, **Macroeconomist**
Mary R. Mugyenyi, **Social Sector/Gender Specialist**
Mackay E. Okure, **Infrastructure Expert**
C.K. Kaira, **Infrastructure Expert**

Mukono District Administration
Peter Kalagala, **Resident District Commissioner**
Robert Kalimba, **Chief Financial Officer**
Charles Luwanga, **District Planner, District Registrar**
Solomon Sonoko, **District Economist**
Ellys K. Tumushabe, **District Medical Officer**
Christine Ampaire, **Acting Director, Gender and Community Services**
Milliam Bulega, **Assistant Community Development Officer**

Mukono District Council
Edirisa Mayanja Njuki, **Speaker**
Lydia Kiwanuka, **Secretary for Finance and Planning**
Victoria Kakoko Ssebogereka, **Secretary for Health**
Rehema Mukalazi, **LC-5 Women's Councillor**

Nakisunga Sub-County Administration
Christopher Sekado, **Sub-County Chief**

Nakisunga Sub-County Council
Grace Namayanja, **Women's Councillor**

Academics

Centre for Basic Research
John-Jean Barya, **Chief Executive**
Josephine M. Ahikire, **Senior Research Fellow**

Economic Policy Research Centre, Makerere University
Fred Opio, **Executive Director**
Marios Obwona, **Senior Research Fellow**
Tenkir Bongor, **Research Fellow**
Godfrey Bahiigwa, **Research Fellow**

Department of Women's Studies, Makerere University
Deborah Kasente, **Lecturer**
May Sengendo, **Lecturer**

Department of Pathology, Makerere University
Wilson Byarugaba, **Associate Professor**

Non-Governmental Organisations

CARE International, Uganda
David Mwesigwa, **Sector Advisor, Agriculture and Natural Resources**

Community Development Research Network
John de Conick, **Director**

Private Enterprise Support, Training and Organisational Development Project (PRESTO)
Anne Ritchie, **Director, Centre for Microenterprise Finance**

Foundation for International Community Assistance (FINCA)
Michael J. McCord, **Regional Manager, Africa**

Development Research and Training
Charles Lwanga-Ntale, **Director**

Uganda Debt Network
Zie Gariyo, **Co-ordinator**

Uganda National NGO Forum
C.D. Rauxen Zedriga, **Coordinator**

Uganda Protestant Medical Bureau
Steven Mutiaba, **Executive Secretary**
Benon Balijunaki Sabiiti, **Head of Administration**

UWONET
Sheila Kawamera, **Co-ordinator**

Official Development Agencies

Irish Aid
Theresa McDonnell, **Programme Officer**

British High Commission and DfID
Maureen Morrison, **Programme Officer**
Ros Cooper, **Social Development Advisor**

Netherlands Development Organisation (SNV):
Andy Wehkamp, **Director**
James Baba, **Head, Community Action Programme, Arua**

Royal Danish Embassy
Daniel Iga, **Programme Officer**

UNICEF:
Vivien Van Steirteghem, **Child Nutrition Programme**
Dr Lim Lim, **Aids Prevention Programme**

World Bank
Robert Blake, **Senior Economist**

APPENDIX III

CHARTS OF GOVERNMENT RECURRENT EXPENDITURE BY SECTORS

Sectoral Classification of Government Expenditures, current prices

	1994/95	1996/96	1996/97	1997/98	1998/99
Roads and Works	25.8	27.2	53.9	42.6	76.6
Agriculture	14.4	9	10.8	11.2	17.5
Education	115.8	117.6	174.2	204.7	250.2
Health	38.3	40	50.1	48.3	66.9
Security	116.2	116.6	145.4	124.7	163.2
Law and Order	51.5	60.3	69.1	65.5	75.4
Economic Functions, Soc Services and Multisectoral	47.9	37.5	50.6	33	44.7
Public Administration	121.5	158.1	181.5	206.3	214
Interest Payments Due	47.3	54.3	55.7	77.17	83.2
TOTAL	578.7	620.6	791.3	823.47	991.7
Percentage shares					
Roads and Works	4.5%	4.4%	6.8%	5.2%	7.7%
Agriculture	2.5%	1.5%	1.4%	1.4%	1.8%
Education	20.0%	18.9%	22.0%	24.9%	25.2%
Health	6.6%	6.4%	6.3%	5.9%	6.7%
Security	20.1%	18.8%	18.4%	16.4%	16.5%
Law and Order	8.9%	9.7%	8.7%	8.0%	7.6%
Economic Functions, Soc Services and Multisectoral	8.3%	6.0%	6.4%	4.0%	4.5%
Public Administration	21.0%	25.5%	22.9%	25.1%	21.6%
Interest Payments Due	8.2%	8.7%	7.0%	9.4%	8.4%
TOTAL					

Sectoral Classification of Government Expenditures, constant prices 1991

	1994/95	1995/96	1996/97	1997/98	1998/99
Roads and Works	31.7	31.1	57.2	42.6	73.0
Agriculture	17.7	10.3	11.5	11.2	16.7
Education	142.4	134.5	184.8	204.7	238.3
Health	47.1	45.8	53.2	48.3	63.7
Security	142.9	133.4	154.3	134.7	155.4
Law and Order	63.3	69.0	73.3	65.5	71.8
Economic Functions, Soc Services and Multisectoral	58.9	42.9	53.7	33.0	42.6
Public Administration	149.4	180.8	192.6	206.3	203.8
Interest Payments Due	58.2	62.1	59.1	77.2	79.2
TOTAL	711.5	709.8	839.6	823.5	944.5
CPI Deflator, 1997/98 = 100	0.8133	0.8743	0.9425	1	1.05
Annual growth rates					
Roads and Works		-1.9%	83.8%	-25.5%	71.2%
Agriculture		-41.9%	11.3%	-2.3%	48.8%
Education		-5.5%	37.4%	10.8%	16.4%
Health		-2.8%	16.2%	-9.1%	31.9%
Security		-6.7%	15.7%	-12.7%	15.4%
Law and Order		8.9%	6.3%	-10.7%	9.6%
Economic Functions, Soc Services and Multisectoral		-27.2%	25.2%	-38.5%	29.0%
Public Administration		21.0%	6.5%	7.1%	-1.2%
Interest Payments Due		6.8%	-4.8%	30.6%	2.7%
TOTAL		-0.2%	18.3%	-1.9%	14.7%