

FAST TRACK BRIEF

April 13, 2009

The IEG report "Uganda Country Assistance Evaluation, 2001-07," was discussed by CODE on April 13, 2009

Uganda Country Assistance Evaluation, 2001-07

- ◆ The World Bank and the African Development Bank programs in Uganda over 2001-07 were delivered under the FY01-03 WB Country Assistance Strategy, the 2002-04 AfDB Country Strategy Paper, and the Uganda Joint Assistance Strategy. These strategies focused on promoting governance, growth, and human development, and were pursued through a net commitment of \$2.1 billion by the International Development Association (FY01-07) and \$732 million equivalent (2002-07) by the African Development Fund.
- ◆ The World Bank's assistance strategies showed strong client orientation and were aligned with Uganda's poverty reduction strategy. The programs were substantially effective in decentralization, public sector reform, growth and economic transformation, education, and water and sanitation. More could have been done to help counter the perception of increasing corruption, improve power supply, reduce transport costs, enhance agricultural productivity, and help with family planning and reproductive health.
- ◆ The AfDB's assistance was also relevant and aligned with the government's development goals. Its support substantially achieved its objectives for decentralization, public sector finance, growth and economic transformation, improved competitiveness, agriculture, and water and sanitation, as well as education and health. There were some shortcomings in the assistance provided for power and roads and in reducing corruption.
- ◆ The International Finance Corporation's (IFC's) main contribution has been in telecommunications, in addition to playing a substantial role in providing assistance for institutional and regulatory reforms in leasing and in supporting the supply response to these reforms. Limited impact was seen in small and medium enterprise (SME) access to finance, despite significant joint effort with the World Bank.
- ◆ IEG recommends that the World Bank support the development of an analytic framework to guide Uganda's decisions on governance reform; encourage and help the government in developing medium-to-long-term master plans for infrastructure; and assist in coordinating ongoing monitoring and evaluation initiatives through a single framework. OPEV recommends that the AfDB relocate sector specialists closer to the client; seek deeper engagement in a limited set of priorities; and undertake regular (perhaps joint) analytic work and project self-evaluation to underpin its strategy and project assistance. It is recommended that both banks reinforce the effectiveness of general budget support as an instrument for minimizing transaction costs and to facilitate the use of country systems.

This report evaluates World Bank and African Development Bank assistance to Uganda during 2001-07. The motivation to undertake a joint evaluation was the two bank's shift to a common strategic framework, the Uganda Joint Assistance Strategy (UJAS), to guide the formulation and delivery of their programs. Under a common strategic framework joint evaluation is, in principal, more cost effective than the equivalent separate evaluations, since at least some aspects of the evaluation can be done together, which also reduces government transaction costs.

The evaluation discusses the outcome of the support of each bank, then rates each independently, noting that the two banks: are of different size, capacity, and institutional setting; and have programs that were not implemented jointly but in parallel, although they regularly engaged with one another as development partners. The outcome ratings for the two institutions are therefore not comparable and should not be used to imply that one institution did "better" than the other.

Country Background

With a population of 29.9 million (2006 estimate) and per capita income of \$300 (Atlas method, 2006), Uganda is considered one of the world's poorest countries; it is ranked 154 out of 177 countries by the UN Human Development Index (2007).

Uganda emerged from civil war in 1986 with an economy shattered by misrule and conflict. The new government's post-conflict program was directed at economic rehabilitation and stabilization and resulted in a per-capita growth rate of 3.3 percent in the 1990s, a rate that exceeded the average for Sub-Saharan Africa. Sound macroeconomic policies contained debt and stabilized prices, and poverty rates declined (the head-count ratio of poverty fell from 56 percent in 1992 to 34 percent of the population in 2000).

World Bank and AfDB Assistance

Assistance during the period 2001-07 was delivered under the FY01-03 World Bank Country Assistance Strategy (CAS), the 2002-04 AfDB Country Strategy Paper (CSP), and the first two years of the UJAS, 2005-2009. All the strategy documents emphasized the promotion of good governance, support for growth and poverty reduction, and the enhancement of service delivery in education, health, and water and sanitation. While the CAS and CSP were aligned with Uganda's Poverty Eradication Action Plan (PEAP, the title of its Poverty Reduction Strategy Paper), the UJAS was also the mechanism for enhanced donor alignment on a common set of priorities.

The World Bank and AfDB together disbursed about \$1.9 billion (\$1.6 billion from the International Development Association and \$282 million from the Africa Development Fund), constituting about 29 percent of total overseas development assistance to Uganda during calendar years 2001-06. Commitments of IDA credits and grants totaled \$2.1 billion during FY01-07, about 40 percent of which was budget support provided through Poverty Reduction Support Credits. Apart from a single Poverty Reduction Support Loan of UA40 million, the AfDB focused on investment projects, with total commitment of UA492 million, or \$732 million, during 2002-07.

The World Bank also carried out an extensive program of analytic and advisory activities (AAA) dominated by diagnostic economic and sector work (ESW), most notably annual Public Expenditure Reviews. Although these had significant impact, the relevance of the Bank's AAA could have been enhanced with studies focusing on anti-corruption, civil service reforms, and population growth, and with more timely coverage of growth issues, as was done in the 2007 Country Economic Memorandum. The AfDB delivered a few pieces of analytic work, but depended largely on the World Bank and other development partners for such analysis.

Assessment of the World Bank's Contribution

The overall outcome of the Bank's support is rated moderately satisfactory. This reflects the combined ratings for the relevance of objectives, design factors, choice of instruments, and efficacy. On relevance, the Bank's strategies and supporting programs showed strong client orientation and emphasized technical quality, especially the analytic work and project preparation that underpinned its interventions. Moreover, by addressing complex policy and institutional development issues in governance, growth, and human development, the level and scope of support was comparable to what the Bank provided to countries with development needs similar to Uganda's. Although it is not possible to evaluate the efficiency of the Bank's support, the resources were used to meet the targets proposed in the CAS and reflected the objectives outlined in the CAS. The AAA was cost-effective and complemented the lending program, and portfolio performance was close to the Bank's average.

The Bank's assistance was substantially effective and achieved its objectives for decentralization, public sector reform, growth and economic transformation, education, and water and sanitation. Public sector reform, including financial management and accountability reforms, supported by general budget support and capacity-building, helped enhance institutions and service delivery

in rapidly expanding local government structures. Along with the International Monetary Fund and other development partners, the Bank's policy dialogue helped the government maintain a prudent fiscal stance throughout the period, although analytic work on the slow-down of growth was not timely. Support for education and health helped to increase coverage, improve access, and establish a framework for better service delivery.

Bank support achieved modest outcomes in key areas of the government's poverty reduction agenda. The support was not fully successful in helping to counter the perception of increasing corruption, promoting a competitive business environment through improved supply of power and reduced transport costs, enhancing agricultural productivity, or helping with family planning and reproductive health.

Assessment of the AfDB's Contribution

The overall outcome of AfDB's support is rated moderately satisfactory. This rating should be considered against a backdrop of AfDB's limited resource base, its strategic selection of areas in which to intervene, and the role played by other development partners. The AfDB aligned its strategies with the PEAP and provided selective assistance by complementing the activities of other development partners, including the World Bank. However, the efficiency of resource use on targets set in the CSP was lower than expected given the long project effectiveness and gestation periods, which tended to impede the timely realization of project benefits.

AfDB's assistance was substantially effective in achieving its objectives for decentralization, public sector reform, growth and economic transformation, improved competitiveness, agriculture, water and sanitation, and health and education. The AfDB complemented the efforts of other development partners, notably the World Bank, in supporting decentralization through capacity building and institutional support. Its assistance was particularly important in improving access to potable water supply through its small-town and rural water projects, as well as to mental health, primary health care, and education services. Its diversified approach to agriculture through support for fisheries and livestock is likely to improve rural incomes. In other areas, AfDB's support was less effective: for example, its anti-corruption efforts need refocusing and quality issues in healthcare and primary education need to be addressed.

IFC's Assistance

IFC's activities in Uganda covered the period between 1999 and 2008. IFC's set of objectives included support for the development of infrastructure, financial and social sectors, and the growth of small scale enterprises,

with special emphasis of empowering women entrepreneurs. During this period, IFC invested US\$178 million in 10 projects in Uganda, encompassing power, telecommunications, financial sectors and small investments in agribusiness and education.

IFC also undertook advisory services operations that focused predominantly in infrastructure (52%) and access to finance (33%). These operations supported privatizations, large infrastructure projects, telecommunications, small and medium enterprise (SME) growth, access to finance for woman entrepreneurs and mortgage finance.

Assessment of IFC's Contribution

IFC's main contribution has been in telecommunications where it helped restructure the sector and expand access to mobile communications. In addition, IFC played a substantial role providing assistance to institutional and regulatory reforms in leasing and supported the supply response to these reforms by helping clients introduce new financial products in the market such as: (i) pioneering of the leasing industry in Uganda, (ii) introduction of mortgage programs, (iii) introduction of trade finance program; and (iv) piloting a program targeting women's access to finance. In these instances, IFC's additionality was in the provision of long term finance and expert advice in business development which were critical in mitigating the risks of entering new untested sectors. Despite significant joint efforts with the Bank, the desired results in the energy sector have yet to be seen. Limited impact was seen in SMEs access to finance and in developing housing finance, despite reforms in these areas. Factors of success included: sustained involvement in priority sectors such as energy, telecom, and financial services; a government committed to policy and institutional reform; and a close and well-established relationship with clients.

Alignment and Harmonization

Although aid alignment and harmonization were not explicit aims of any strategy, they were important drivers for the support provided by the two banks. Alignment behind a common set of priorities was facilitated by the first PEAP in 1997, in which the government encouraged the development of sectorwide approach (SWAp) arrangements and the introduction of general budget support, which includes sector budget support, support notionally earmarked to the poverty action fund, and support not earmarked to any sector, such as Poverty Reduction Strategy credits and loans. Further progress on alignment occurred when a group of seven development partners, including the World Bank and the AfDB, completed the UJAS in 2005. That document included a common policy matrix corresponding to the results matrix in the PEAP.

While the PEAP and the UJAS have facilitated the adoption of common development priorities among development partners, the alignment process has led to a large number of sectoral working groups, which—at least in the view of some—is negating the anticipated reduction in transaction costs for the government and its partners. In addition, the UJAS partnership, while it has increased its membership to 11, is still small relative to the 42 development partners providing assistance to Uganda. So, while the UJAS has been a major move in the right direction, it would benefit from clarification of the main principles underlying the partnership along the lines of the 2005 Paris Declaration of Donor Harmonization and Aid Effectiveness.

The aid harmonization mechanism in Uganda is also making progress. With general budget support currently accounting for about half Uganda’s official development assistance, the use of country systems for procurement and other processes is expanding.

Progress notwithstanding, development partners’ mix of aid delivery mechanisms still varies widely. Some, such as Ireland and the United Kingdom, have moved predominantly toward budget support, while others, such as Germany, provide only a small portion of their assistance as budget support. The World Bank has markedly shifted emphasis toward budget support, but still provides almost half of its support through projects. The AfDB provided one round of budget support through the Poverty Reduction Support Loan (in 2002). However, because of restrictions on procurement of items from non-AfDB member countries, the AfDB was unable to participate in SWAs and continued to provide almost all its support through projects.

Overall, while efforts at alignment and harmonization have been substantial, both UJAS (on alignment) and the procedures around the general budget support instrument (on harmonization) need further refinement in order to attract increasing participation from all development partners. The World Bank and the AfDB, along with other multilateral institutions, can lead in this area.

Recommendations

Two sets of separate recommendations are provided: one for the World Bank and the other for the AfDB. The third recommendation applies to both banks. They build on the recommendations provided in the 2001 IEG and the 2004 OPEV Country Assistance Evaluations. The review notes that the recommendations in both documents were not fully implemented, especially those with respect to the World Bank taking a stronger stance on governance and the AfDB deepening its ESW.

For the World Bank, given that the program implementation was reasonably on target, commitments reflected the objectives of the program, analytic work relatively cost effective and portfolio performance was close to the World Bank average, it may be concluded that resources were adequately directed to their intended use. World Bank assistance could continue to:

- ❖ Support government efforts to develop an analytic framework to guide decisions on governance reforms. Such a framework will help define the causal links between various interventions and expected outcomes related to improved governance.
- ❖ With the help of development partners, encourage and support government efforts to develop medium-to-long-term master plans for infrastructure development in order to promote private sector participation, competition, and regulatory reform.
- ❖ Encourage the government to coordinate ongoing monitoring and evaluation initiatives by its development partners in order to secure reliable monitoring and evaluation of its overall poverty reduction strategy.

For the AfDB, concern with program effectiveness could be raised given the long project effectiveness and gestation period, which could reduce the timely outcome of project benefit. In this respect, the AfDB could:

- ❖ Strengthen presence by relocating sector specialists to the country in order to raise its profile and improve policy dialogue. This is particularly important in the areas where the AfDB plans to stay engaged. To avoid spreading staff too thinly, one option may be to deploy sector specialists to regional hubs.
- ❖ Use limited resources more effectively by seeking deeper engagement in a limited set of areas.
- ❖ Undertake regular (perhaps joint) economic and sector work and project self-evaluation to underpin strategy and project assistance.

For both:

- ❖ Seek to reinforce the effectiveness of general budget support as an instrument for minimizing transaction costs and facilitating the use of country systems, as channeling funds through the recipient country’s institutions helps strengthen the governance structures and capacities and facilitate aid harmonization. This will require a greater focus on reaching agreement with other UJAS members on a joint budget support mechanism and assisting the government in budget prioritization, monitoring, and evaluation.

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Contact IEG:

Director-General, Evaluation: Vinod Thomas
Director: Cheryl Gray (IEG-WB)
Manager: Ali M. Khadr (IEGCR)
Task Manager: James Sackey (IEGCR)

Copies of the report are available at:
<http://www.worldbank.org/ieg/cae>
IEG Help Desk: (202) 458-4497
E-mail: ieg@worldbank.org