

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

UGANDA

**Poverty Reduction Strategy Paper Progress Report
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association and
the International Monetary Fund

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I. INTRODUCTION

1. This is a joint staff assessment of Uganda's first PRSP progress report, which documents the progress in the PRSP/PEAP implementation.¹ Specifically, the progress report aims to synthesize information on recent poverty trends and policy developments and outlines the adjustments in the poverty eradication strategy.
2. The PRSP progress report is a summary of the Poverty Status Report (PSR) 2001 that the government intends to prepare hereafter on a regular basis.² The progress report was prepared through a participatory process to strengthen broad ownership of the strategy, involving government officials, civil society representatives, and donors. Consultations with line ministries, civil society, and donors took place in early February 2001, during which participants reviewed the draft progress report, its key messages, and its implications for the poverty reduction strategy. The workshop participants generally endorsed the report and key messages. The progress report also notes the efforts made to engage civil society in monitoring government programs, notably through the Poverty Action Fund (PAF). The staff encourages the government to continue these efforts, particularly in assessing service delivery.
3. In the view of the staff, the PRSP progress report provides a good basis for evaluating progress in the implementation of the government's poverty eradication strategy. First, it draws on new data to document the evolution of the poverty situation in Uganda, taking advantage of

¹The Poverty Reduction Strategy Paper (PRSP) is a summary of the government's Poverty Eradication Action Plan (PEAP) that the government revised in 2000. The first PEAP was produced in 1997. The PRSP progress report documents the progress under each of the four major pillars of the PRSP/PEAP: (1) creating a framework for economic growth and transformation; (2) ensuring good governance and security; (3) directly increasing the ability of the poor to raise their incomes; and (4) directly increasing the quality of life of the poor.

²The government plans to revise the PRSP/PEAP every three years; in the alternate years between PRSP/PEAP revisions, the government will prepare Poverty Status Reports. The first Poverty Status Report was prepared in 1999.

the systematic government efforts to collect information on living conditions and welfare. Second, the report is candid and accurately reports not only accomplishments but also continuing problems and some failures to meet previously established targets. In the latter event, it discusses remedial measures. Third, it includes a thorough discussion of macroeconomic performance, including fiscal management and analysis of exogenous factors. Fourth, the report adequately responds to most of the issues raised in the joint staff assessment of the PRSP/PEAP.³ Although the PRSP/PEAP and the PRSP progress report did not contain a policy matrix, the staff suggests that the government includes a policy matrix summarizing the progress in key policy areas in the next progress report. In addition, the staff notes that while the progress report does not contain a revised medium-term macroeconomic framework that takes into account recent developments in the external and domestic economy, the medium-term growth, inflation and gross reserves objectives remain as set in the PRSP/PEAP.

II. POVERTY OUTCOMES

4. Since the issuance of the PRSP/PEAP in May 2000, the government has completed the Uganda National Household Survey of 1999/2000, which measures the living standards of the population. It has also conducted a National Service Delivery Survey to assess the performance of public services. The results of these surveys, in particular the findings of the household survey, are reflected in the progress report and provide a robust basis for evaluating the evolution of poverty in Uganda. In addition, the government intends to carry out another participatory poverty assessment later in 2001, which will provide an important input into the next revision of the PRSP/PEAP.

5. The results of the household survey provide important new information about the longer term poverty outcomes of the strategy. In the view of the staff, two important conclusions emerge from the survey analysis. First, the economic growth in the 1990s has translated into substantial increases in household consumption and a reduction in income poverty. The reduction in poverty appears to have continued between 1997 and 2000, despite the slower pace of economic growth experienced during this period. According to household survey results, the proportion of the population living below the poverty line (poverty head count index) declined from 56 percent in 1992 to 44 percent in 1997, and then to 35 percent in 2000 (a decline of 38 percent since 1992). The government is on track to achieving its target of reducing poverty to 10 percent or less by 2017, as well as reducing by half the proportion of people in extreme poverty by 2015, in line with the international development goals.

6. Second, while poverty has declined, the progress report is rightly concerned that inequality in Uganda has increased, especially after 1997, as shown in the most recent household survey. Consumption gains have been inequitably distributed across the population, with the richest decile having experienced the largest rise in living standards: it has seen its real consumption increase by 20 percent since 1997, whereas consumption levels of the poorest decile has grown by only 8 percent. In addition, regional inequality has widened. Poverty is regionally concentrated, with the north and east having the largest proportions of poor populations. In particular, the poverty situation in the north, which continues to suffer from civil conflict, has worsened since 1997, while poverty has declined in all other regions. Moreover, the rural-urban gap has widened. Poverty in Uganda continues to be a rural phenomenon, with 96 percent of the poor living in rural areas in 2000. Although in the aggregate poverty has fallen both in rural and

³The issues raised in the joint staff assessment of the PRSP include: the linkage between budgetary resources, outputs, and poverty outcomes; the depth and strength of financial institutions, and the improvement of the legal framework; an agenda for further analytical work; measures to strengthen tax administration; and prioritization of measures to improve governance and accountability.

urban areas over past decade, the decline has been more pronounced in urban areas. Even in the north, poverty is concentrated in rural areas—poverty in urban areas has actually declined in the past few years. The need to raise rural incomes to reverse the adverse trends in inequality is recognized in the PRSP/PEAP progress report.

7. To guide government policy in addressing these issues, the staff is of the view that further analytical work should be undertaken as a matter of priority. In this regard, the government should seek to compare the evidence emerging from the household survey with other data, notably national accounts information and information on agricultural production. The household survey data should be further exploited to gain a better understanding of the factors underlying the increase in income inequality, worsening conditions in the north, and the options for further agricultural development in light of changing agricultural prices. In particular, it is important to understand to what extent the observed increase in inequality is due to structural factors or to specific exogenous events. Furthermore, the PRSP progress report is largely silent on gender dimensions of poverty. This is an area that needs to be explored further in order to inform policy decisions. In the staff's view, answers to these questions should be essential inputs into the revised poverty reduction strategy.

III. MACROECONOMIC DEVELOPMENTS

8. The PRSP progress report documents the significant progress made by the government on the macroeconomic front. The report acknowledges, however, that the growth and inflation targets set out in the PRSP/PEAP (7 percent and 5 percent, respectively) were not met in 1999/2000 (July-June). The pace of economic growth moderated to 5.0 percent, and consumer price inflation accelerated to 6.3 percent. The deterioration in macroeconomic performance was largely attributable to the fall in the terms of trade, as the loss in income from the increase in oil prices and the decline in coffee prices exceeded the equivalent of 2.0 percent of GDP. Economic performance was also negatively affected by the drought in some parts of the country and the ban imposed by European Union on Uganda's fish exports.

9. Overall, budgetary performance improved considerably in the early and mid-1990s in response to actions taken by the government to strengthen revenue collection and expenditure management. However, in 1999/2000, the fiscal deficit (before grants) widened substantially. Although the PRSP/PEAP had envisaged an expansion of the overall fiscal deficit on account of a marked pickup in donor-funded expenditure, the wider-than-expected gap in part reflected the negative effects of the terms of trade shock on both revenue and expenditure. Notwithstanding the fall in revenues, the government protected essential poverty-related expenditures, reflecting its firm commitment to the poverty reduction strategy. A significant pickup of donor budgetary support helped to achieve this fiscal stance, as well as to maintain macroeconomic stability.

10. Even though some of the quantitative targets were not met in 1999/2000, the government of Uganda is to be commended for the handling of the external shock and achieving a 5 percent real growth rate under adverse circumstances. However, recent performance has highlighted Uganda's continued vulnerability to external events.

11. In the staff's view, notwithstanding the deviations from the PRSP/PEAP targets mentioned above, the macroeconomic framework underpinning the PRSP/PEAP remains a suitable basis for implementing the poverty reduction strategy.⁴ The fiscal stance is consistent with the envisaged

⁴ The authorities have indicated that the medium-term macroeconomic framework, which will be updated in light of recent developments, would be presented in the context of the Medium Term Expenditure Framework (MTEF) for the upcoming Consultative Group meeting.

modest pickup of revenue and the projected availability of donor assistance. Nevertheless, there is a need for further strengthening of the budget management system, better monitoring of fiscal operations at all levels, and determined efforts to reduce the unproductive use of public resources.

IV. PROGRESS IN PUBLIC EXPENDITURE AND REVENUE MANAGEMENT

12. Public expenditure management has strengthened in several respects. First, targeting of resources to poverty-reducing activities (education, health, roads, agriculture, water and environment) has improved. The MTEF and PAF have enabled the government to shift public expenditure patterns substantially toward the social sectors and infrastructure, which are emphasized in the PRSP/PEAP. The share of the PAF in total public spending has increased from 24 percent in 1999/2000 to 31 percent in 2000/01. While the PAF has helped the government to target resources to poverty reducing activities, it has also led to a proliferation of conditional grants at the local government level. The cost of administering and accounting for these grants at this level is significant. However, efforts are under way to streamline the intergovernmental transfer system. Second, budgetary management showed encouraging signs of improvement in 1999/2000 as the deviation of sectoral expenditure outturns from budgetary intentions narrowed considerably, compared with previous years. The Commitment Control System (CCS) has played an important role in this respect. Third, in the past year, the government has continued efforts to establish clear output and outcome goals and targets at the sectoral and district levels by including such measures in the sector submissions for the MTEF. The roads, education, health, and water and sanitation sectors have already introduced output and outcome measures in their budget framework papers for 2001/02-2002/03. Fourth, since 1999/2000, the Government has been incorporating staffing plans and related wage bill issues in sector expenditure programs.

13. Revenue collection has been disappointing, with the revenue-to-GDP ratio declining to 11.6 percent in 1999/2000. The poor performance is partly attributable to weak management of the Ugandan Revenue Authority (URA), the prevalence of discretionary exemptions and delays in implementing tax administration reforms. The staff welcomes the government's decision to strengthen the management of the URA in the near future and the steps being taken to remove the remaining discretionary exemptions. However, in the staff's view, these measures will not be adequate to raise the revenue-to-GDP ratio as desired. A significant improvement in Uganda's revenue performance will require major reforms of the tax administration system and an expansion of the tax base.

14. While the budgeting system is relatively good in Uganda, the process of accounting for expenditures is inadequate. In the past year, the government has taken steps to improve financial management, including the introduction of consolidated quarterly reports on budget implementation and the appointment of additional accounting officers at the central and district levels. Furthermore, the government has extended the CCS to cover the development budget, in addition to nonwage recurrent expenditure. The staff welcomes these efforts and the government's intention to carry out expenditure tracking studies annually to obtain information on actual spending. In the view of the staff, however, these initiatives need to be supplemented by sustained efforts to build capacity for financial management, in particular at the local government level. These efforts should help to facilitate the timely submission by local authorities of monthly returns on the utilization of funds, which is essential to strengthening the budgetary and accounting systems of these bodies.

15. Since the completion of the last PRSP/PEAP, the government has prepared initial costing estimates of the overall PRSP/PEAP program. The main conclusion of this work is that the program as currently set out is underfunded. As noted in the progress report, the initial work suggests that there is a shortfall of about 37 percent between current spending levels and those

needed for full funding of PRSP/PEAP-related programs. Increases of this magnitude are clearly not compatible with macroeconomic stability, and, accordingly, the government is in the process of refining costing figures, and adjusting and prioritizing activities and targets. This process is being carried forward through the regular MTEF exercise, thereby ensuring compatibility with broader macroeconomic objectives. The staff encourages the government to continue its efforts to improve the costings.

16. In summary, in the staff's view, the government in the past year has consolidated the substantial progress made in improving budgetary management. The budget has become more poverty-focused and more closely linked to expected outcomes. However, the sustainability of the fiscal position depends critically on a significant improvement in revenue collection over the medium term. The government will also need to sustain its efforts to prioritize expenditures, increase their cost-effectiveness, and strengthen local government accountability if the full impact of the poverty expenditures is to be realized.

V. PROGRESS IN DELIVERY OF BASIC SERVICES

17. As set out in the PRSP progress report, the performance of basic public services that have been given priority in the PRSP/PEAP—education, health, and water and sanitation—has improved, albeit not necessarily as fast as envisioned in the PRSP/PEAP. In each sector, some interim PRSP/PEAP targets were not achieved in 1999/2000.

18. Following the introduction of free universal primary education, access to education by all income groups and gross enrollments have dramatically increased. However, the quality of education seems to have suffered in the process: for example, in 1999, about one fourth of all pupils failed to pass final examinations in primary school. The government is making a concerted effort to improve quality by increasing the availability of textbooks, expanding school construction, and hiring more teachers. The average pupil-textbook ratio has not, however, declined at the rate envisioned: at 6.7:1 in 2000, it was higher than the original PRSP/PEAP target of 6.0:1. Schooling infrastructure has improved, but the average pupil-classroom ratio of 125:1 is still significantly higher than the target of 118:1. Also, though the average pupil-teacher ratio declined to 65:1 in 2000 from 68:1 in 1999, it was still higher than the original PRSP/PEAP target of 58:1. There are two key reasons why these targets were not met: higher than anticipated gross primary enrollments and continued delays in teacher recruitment. Teacher recruitment has been constrained by a number of factors, including a shortage of qualified teachers in the country; low pay and delays in getting access to the government payroll, which discourage the entry of new teachers; and problems with the process of recruiting teachers, which delay their placement in classrooms. The government has taken action to improve the situation in the past year. It has recently implemented a national recruitment drive and is addressing each of the above constraints to recruitment. Specifically, it has increased the number of participants in teacher training programs and is providing further training to unqualified teachers currently in service; designing a pay reform strategy (including incentive pay for teachers working in remote areas); and it is strengthening recruitment functions and streamlining the payroll access process. In the view of the staff, if effectively implemented, these measures will improve the current situation. The staff, however, emphasizes that this requires prompt action to reform the pay system and payroll management. Also, there is a need to improve the efforts to forecast enrollments.

19. As documented in the PRSP progress report, the use of health services has significantly increased. The largest increase, however, has been in the use of private health facilities. In 2000, of individuals who were sick or injured, 46 percent used private facilities, and 23 percent relied on public facilities, compared with 35 percent and 22 percent, respectively, in 1997. The

government has continued the implementation of its HIV/AIDS control program and is in the process of expanding efforts to control malaria. The DPT3 immunization target (45 percent) in the PRSP/PEAP was not achieved in 1999/2000, and household survey results suggest that the overall immunization status of children under 5 years of age has worsened since 1996. A decrease in the number of vaccinators and aging and inadequate refrigeration systems are some of the reasons for the decline. As a response, the government has started refurbishing the 6,000 outreach sites in the country and is drafting a plan for the revitalization of immunization programs. As in education, there is an acute shortage of qualified staff in the health sector. In 2000, only 40 percent of health units had trained staff — a lower level than the PRSP/PEAP target of 55 percent. The planned pay reform, the streamlining of payroll management, the upgrading of the skills of nursing assistants, and the recent initiation of training for comprehensive nurses with the opening of two schools should help to improve the situation. In the staff's view, these measures will help raise the level and quality of the health sector staff over time. However, there is a need to expedite the preparation and implementation of the plan to revitalize immunization programs, including raising public awareness of the importance of immunization.

20. Public expenditure allocations for water and sanitation have steadily increased in the past three years. As a result, safe water coverage in rural areas increased from 40 percent in 1997/98 to 50 percent in 1999/2000. Even though some quantitative targets regarding the number of shallow wells built and springs protected were not met in 1999/2000 partly because of the choices made by communities, the performance in each of these areas improved. In 1999/2000, the government also initiated the preparation of a sector wide approach for water and sanitation and strengthened the capacity of districts to deliver water and sanitation services by setting up District Water and Sanitation Teams. In urban areas, the government sought to introduce efficiency and commercial orientation into the management of water and sanitation services. Many of the challenges in the water sector, as in education and health, are being addressed by the government, and further structural adjustment reforms to improve service delivery in each sector will be supported by the proposed Poverty Reduction Support Credit.

21. Service delivery is adversely affected by high levels of corruption. In particular, many of the services that are most relevant to the poor (such as police and health care) are considered to be among the most corrupt. In these cases, corruption effectively limits the access of the poor to these services. Since the completion of the PRSP/PEAP, the government has published a plan to fight corruption and promote integrity. The government has started the reform of public procurement and issued new procurement regulations for ministries, departments and agencies. Also, it has tabled the Leadership Code Bill in Parliament, and is continuing efforts to improve financial management. In the staff's view, the plan is a good start, but, given capacity constraints, the prioritizing of actions and decisive execution and implementation of the plan are needed to ensure any improvements. Also, it is important to engage the civil society to a greater extent than before in the effort to improve service delivery by designing and implementing mechanisms through which the performance of public institutions can be monitored and held accountable.

22. Overall, the government over the last year made important strides in improving the delivery of key services relevant to the poor. However, the progress was uneven, and, in some areas (notably primary education), although progress was made, the targets were missed by a wide margin. The proposed Poverty Reduction Support Credit is designed to support the government's efforts to improve service delivery in each of these sectors.

VI. IMPLICATIONS FOR POVERTY REDUCTION STRATEGY

23. In the view of the staff, the progress report yields the following implications for the government's poverty eradication strategy. First, the steep decline in the national poverty head count indicates that the government's poverty eradication strategy is broadly sound. However, the government rightly notes in the progress report that some modifications in the overall poverty strategy will be required to address the rising income inequality and increasing poverty in the north. This will require that greater attention be given to raising rural incomes, including agricultural productivity. The staff suggests that the government spell out what it intends to do in the next PRSP/PEAP, after a careful analysis of underlying factors.

24. Since almost all the poor people in Uganda live in rural areas, it is critical that the government's strategy increasingly emphasize rural development. Since the issuance of the PRSP/PEAP, the government has published its Plan for the Modernization of Agriculture (PMA) to promote rural development. The PMA seeks to address this problem by focusing on improving the conditions of small-scale, semisubsistence farmers. However, while the PMA lays out an appropriate framework for achieving this objective, important details relating to its implementation remain to be resolved. Accordingly, operationalization of the PMA should be given a high priority and its implementation accelerated. It is encouraging that the government has already taken the first step by conducting a study on the modalities for effecting the PMA nonsectoral grant, which is the key instrument for promoting rural development. Further work on transfer modalities and arrangements at the local level, however, will still be needed before the PMA can become fully operational. This work needs to be closely coordinated with the ongoing work on streamlining the current intergovernmental fiscal transfer system. Moreover, it is critical that ongoing efforts to strengthen financial accountability and planning and budgeting processes at the local government level be intensified, since most PMA activities will take place at these levels. The IDA is supporting two government projects—the Local Government Development Program and Economic and Financial Management II—that are likely to be pivotal in this regard. Also, the Fund is providing long-term technical assistance in the area of local government budget management. In addition, analytic work is required to inform the actions to be taken under the PMA in the following areas: the implementation of the Land Act; provision of rural infrastructure, in particular, roads and electricity; access to technical services through agricultural extension services; and access to rural credit.

25. Second, the analysis also suggests that insecurity, which impedes effective public service delivery, is one of the main reasons for increasing poverty in the north. In the view of the staff, sustained improvement in the security situation in the north would go a long way toward halting a further impoverishment in the region and the deterioration of service delivery. In addition, the government might consider implementing a special program to address reconstruction and targeted poverty alleviation in the north.

26. Third, it is important to pay more attention than before to the gender aspects of development. While gender disparities in participation in decisionmaking and access to services have decreased, other gender inequalities remain. The subsistence food crop farmers that constitute the largest group of the poor are predominantly women. Women provide in aggregate 75 percent of total agricultural labor and over 80 percent of labor in food crop and nontraditional export sectors. In the view of the staff, it is important that the implementation of the PMA in particular attempts to alleviate constraints faced by these groups.

27. Fourth, as noted in the PRSP/PEAP, a real GDP growth of 7 percent a year is needed to underpin the achievement of the government's poverty reduction objectives. However, recent performance has fallen short of this target. As a small open economy, Uganda's growth prospects

depend critically on external competitiveness. The government has since the issuance of the PRSP/PEAP put in place its Medium Term Competitiveness Strategy (MTCS) which lays out a multisectoral strategy for improving private sector competitiveness. This involves increasing investment in basic infrastructure (notably roads and power) and improving institutional capacity, particularly legal and regulatory capacity. In the staff's view, the MTCS addresses the key constraints to private sector investment and production. However, aggressive implementation of the program is essential if the 7 percent growth objective is to be achieved.

28. Fifth, the recent terms of trade shock highlights the need for a further diversification of the economic structure to reduce vulnerability to commodity price shocks. While coffee is likely to continue as one of the major cash crops in Uganda, mitigating the risks associated with price fluctuations and coffee wilt disease by further diversifying into other areas or by devising mechanisms to manage the related risks is advisable. Implementation of the PMA will partly address this concern. Increased diversification can take place only through a significant increase in private sector investment, however. There is, therefore, a need to strengthen the efforts at improving the enabling environment for the private sector, further underlining the need for rapid implementation of the MTCS.

29. Finally, as mentioned earlier, to ensure that the focus will be on real progress toward the PRSP/PEAP objectives, the government has introduced output and outcome goals and targets at the sectoral and district levels within the MTEF for education, health, and water and sanitation. The PRSP/PEAP targets have been revised accordingly to ensure that they are consistent with the output and outcome goals and reflect the latest policy developments and overall resource constraints. However, without effective monitoring systems, these goals and targets are unlikely to be achieved. Therefore, the staff emphasizes the importance of continuing to strengthen the monitoring and evaluation processes, and the need to signal the sectors that their performance hereafter will be assessed against the achievement of the set policy goals and targets.

VII. CONCLUSION

30. In the staff's view, the government of Uganda has made significant progress in the implementation of its PRSP/PEAP. First, it has maintained the momentum in the implementation of its poverty reduction strategy which has translated into impressive declines in poverty. The staff notes, however, that some information in the progress report is preliminary in nature. Specifically, poverty head count numbers need further validation, and health results need to be confirmed by the Demographic and Health Survey later this year. However, as the progress report notes, the rising inequality, in particular between rural and urban areas and between the north and the rest of the country, is of concern. The factors explaining this divergence need to be identified and adjustments made, as necessary, in the poverty strategy. Second, the performance of the economy has been relatively good, given the larger-than-anticipated external terms of trade shocks. However, it is important that growth be accelerated from current levels if poverty reduction objectives are to be achieved. Implementation of the key features of the MTCS is critical in this regard. In the view of the staff, the recent growth rates of agricultural output are below Uganda's potential. The speedy implementation of the PMA is, therefore, crucial to improving the performance of the sector. Third, public resource allocations have become increasingly pro-poor. Prudent fiscal policies and pro-poor fiscal allocations have not, however, in general been accompanied by equivalent improvements in effective public service delivery. In the view of the staff, concerted effort to address the constraints on effective service delivery should be given a high priority.

31. The staffs of the World Bank and the IMF consider that, based on this PRSP Progress Report, the Ugandan poverty reduction strategy remains a sound basis for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the Bank and the Fund reach the same conclusion.