Uganda - European Community

Country Strategy Paper
and National Indicative Programme
for the period 2002-2007

Government of Uganda
Ministry of Finance,
Planning and Economic
Development

European Commission

The Government of Uganda and the European Commission hereby agree as follows:

(1) The Government of Uganda, (represented by Hon. Gerald Ssendaula, Minister of Finance, Planning and Economic Development), and the European Commission (represented by the then Head of Delegation, Ambassador Bernard Ryelandt), hereinafter referred to as the Parties, held discussions in Kampala from December 2000 to July 2001 with a view to determining the general orientations for co-operation for the period 2002 – 2007. The European Investment Bank was represented at these discussions by Mr. David White, Deputy Division Chief, ACP Department.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Uganda were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Uganda

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

(2) As regards the indicative programmable financial resources which the Community envisages to make available to Uganda for the period 2001-2007, an amount of € 246 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of € 117 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.

(3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDFs, for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which the Uganda benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.

(4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget; contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the indicative programme.

(5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Uganda, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures

of the eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund.

(6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see Paragraph 4.5).

(7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years and the end-of term review shall be undertaken within four years from the date of signature of the Country Support Strategy and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

(8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Done in Kampala on the 30th of May 2002

For the Government of Uganda

Hon. Gerald Ssendaula
Minister of Finance, Planning and Economic Development, National Authorising Officer
NATIONAL AUTHORISING OFFICER
FOR EDF

For the Commission

THE DELEGATION OF THE EUROPEAN COMMISSION
EUROPEAN UNION

Ambassador Sigurd Illing
Head of Delegation

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EXECUTIVE SUMMARY

On 23 June 2000, a new partnership agreement between the EU and 77 ACP countries was signed in Cotonou, Benin. Based on the spirit and principles enshrined in this agreement the Government of Uganda (GoU) and the European Commission (EC) have undertaken the preparation of the Country Strategy Paper (CSP) in close consultation with non-state stakeholders and donors, in particular EU Member States. It reflects the country's own medium-term objectives and strategies as well as the EU's development policies and priorities. It will be instrumental in guiding, managing and reviewing EC assistance, and will facilitate enhanced complementarity between the Commission's and the Member States' external support.

Uganda is an important beneficiary of development funds from the BWI and is also the main development partner for several EU member states. Uganda embarked upon an impressive reform agenda during the 90s: it was the first country to present a full Poverty Reduction Strategy Paper (PRSP) in support of its successful application for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative in April 1998 and later under the enhanced HIPC in May 2000. On the 1st of June 2001, it became the first country to benefit from a Poverty Reduction Support Credit (PRSC) from the WB.

Through fiscal discipline exerted by the Medium Term Budget Framework (MTBF) and the Medium Term Expenditure Framework (MTEF) funds are increasingly and successfully targeting services accessed by the poor. The Poverty Action Fund (PAF) initially established as an instrument to ring fence the HIPC debt relief initiative, complements the MTEF. Decentralisation, together with the Plan for Modernisation of Agriculture (PMA), provides the strategic and operational framework for sustainable rural development and agricultural transformation to ensure equitable economic growth.

Corruption has become a critical and pervasive issue for GoU. Despite the favourable development of the policy environment, the full impact of these improvements has been seriously undermined by corruption. Monitoring progress in the fight against corruption will, therefore, need to be pursued vigorously.

The CSP provides a comprehensive and coherent framework for EC-Uganda co-operation in the medium term and combines, to the extent possible, all relevant resources and instruments. The indicative allocation in terms of programmable resources, A-envelope, amounts to € 246 M, while the B-envelope, meant to cover unforeseen needs, is € 117 M.

In addition the response strategy takes on board the recommendations of the evaluation of the EC country strategy 1996 – 2000. The proposed support is focusing on sector and global strategies developed by GoU and development partners. These components include comprehensive capacity and institutional building with evaluation and monitoring processes based on existing GoU procedures and on co-ordination between the stakeholders, including EU Member States.

Macro-economic support and economic reform, and two sectors: transport and rural development have been identified for EC support. These will be complemented by capacity building for governance and civil society. Joint or parallel financing with other donors, specifically EU Member States, will be a distinct possibility for all EC support.

1. EC CO-OPERATION OBJECTIVES

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of developing countries into the world economy;
- The campaign against poverty in developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and the Republic of Uganda shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement especially the principle of encouragement of development strategies by the countries and populations concerned, and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting developing countries. Furthermore, as laid down in Article 20 of the Agreement, a systematic effort shall be made to mainstream into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

2. THE DEVELOPMENT POLICY AGENDA OF UGANDA

Uganda's vision and strategies for the reduction of poverty are articulated in the **Poverty Eradication Action Plan (PEAP)** that was put into place in 1997, and revised in 2000, through a highly participatory process. Uganda was the first country to present a full PRSP to the International Monetary Fund (IMF) and the World Bank (WB) in support of Uganda's successful application for debt relief under the HIPC Initiative in April 1998 and under the enhanced HIPC in May 2000. On the 1st of June 2001, it became the first country to benefit from a PRSC from the WB for an amount of SDR 116.2 million.

The PEAP provides a comprehensive development framework for Uganda and guides the formulation of GoU policy. The goals of the PEAP are intended to address major concerns of the poor as identified in the Uganda Participatory Poverty Assessment Paper, and reduce the number of Ugandans living below the poverty line to less than 10% by 2015. The four goals are: fast and sustainable economic growth and structural transformation; good governance and security; increased ability of the poor to raise their incomes, and increased quality of life of the poor.

The poverty reduction targets of the PEAP specify that GDP should grow at 7% per annum in real terms over the next 17 years and growth should be equally distributed. Projections by the BWI indicate that such a high growth rate is feasible, but will only be achieved if policy reforms are put in place to encourage and increase private investment and to reduce the cost of public utilities. To make sure that economic growth is evenly spread, it will be essential to promote agriculture and off-farm activities in rural areas where more than 85% of Ugandans live. Uganda's budget management process is marked by expenditure discipline, a liberalised exchange rate, market set interest rates and privatisation of government owned enterprises.

Through fiscal discipline exerted through the Medium Term Budget Framework (MTBF) and the Medium Term Expenditure Framework (MTEF) funds are increasingly and successfully targeting services accessed by the poor. The Poverty Action Fund (PAF) initially established as an instrument to ring fence the HIPC debt relief initiative, complements the MTEF. Subsequently, a number of donors, including the Commission, have channelled some of their funding through the PAF, which has become the major vehicle for directing funds into the priority sectors. Its share in the overall budget has now reached 35%, from 18% in FY 1997/98 and is forecasted to reach 40% by 2003/04. PAF monitoring and reporting requirements have recently been upgraded; guidelines include the development of detailed work plans and quarterly performance reports. The main sectors catered for under the PAF are primary education, primary health care, water and feeder roads. GoU has developed comprehensive sector policies and strategic investment plans in **health** and **education** to improve service delivery at local levels.

Decentralisation is a major undertaking of the GoU, articulated in the 1995 Constitution and in the 1997 Local Government Act (LGA). Presently, Uganda comprises 56 districts (LC 5) and about 1,000 sub-counties (LC 3). Local authorities have the power and responsibility to formulate, approve and execute budgets and plans, levy, charge and collect fees and taxes. Decentralisation is genuine and pursued wholeheartedly by the GoU in the legal and financial fields. Local authorities are elected and have wide-ranging implementation responsibilities in key areas of the fight against poverty: education, primary health, agriculture, water, and feeder roads. This also enhances grassroots democracy and accountability. The process ha been very rapid and, unavoidably, the local authorities lack the necessary resources, skills, programming, implementing and accounting abilities. Most donors' programmes include support for local government and decentralisation, including a significant component of capacity building.

Local Governments are funded by a combination of own revenue, and conditional grants from the national budget. With the inception and growth of the PAF, conditional grants have become much more important and their release is conditioned by satisfactory accountability every quarter. The increasing number of conditional grants has proved to be unnecessarily complex. A reform should be operational by FY 2002/03 that will simplify transfers into three categories: a recurrent transfer system, a development transfer system, and a pilot project transfer system.

Increased emphasis on the reduction of poverty (PEAP 2001-2003) has encouraged more attention to be given to the development of rural areas, where the majority of the country's poor are found. Agriculture is the backbone of Uganda's economy and 85% of Ugandans live in rural areas and earn their living directly or indirectly from agriculture. Increasing agricultural growth rates, diversifying production and expanding non-farm employment are essential for poverty reduction. The **Plan for Modernisation of Agriculture (PMA)** approved by Cabinet in October 2000 provides the strategic and operational framework for sustainable rural development and agricultural transformation from subsistence to commercial agriculture.

In 1996 GoU put in place the **Ten Years Road Sector Development Programme (RDSP)** to contribute to Uganda's economic development through the provision of a sustainable, safe and efficient road network through three components: maintenance, network improvement and institutional development. The RDSP sets out a comprehensive approach of key road investment combined with major policy and institutional reforms. As part of RDSP, an autonomous Road Authority will be established by 2003. By that time the Ministry of Works will focus on policy formulation and regulatory and monitoring functions and retrain staff accordingly.

GoU adheres to the RDSP road maintenance objectives. Formerly implemented by the Ministry of Works, maintenance of the main road network is progressively being contracted to private contractors under the responsibility of the Road Authority Formation Unit (RAFU). A similar approach, under the responsibility of the District Councils, is being applied to the maintenance of the feeder roads and community roads the condition of which is generally poor to very poor. Both PEAP and PMA recognise that an adequate rural transport infrastructure is crucial for the success of poverty reduction programmes in rural areas. An increasing emphasis is therefore being put on the rehabilitation and management of rural infrastructure. Institutional capacity building within District Councils and training of small-scale contractors are also part of RDSP.

The objective of GoU's **Medium Term Competitiveness Strategy (MTCS)** for private sector development is to improve the environment for the private sector to be able to compete, boost economic activity and increase Uganda's export to the global market. This plan has been developed with significant contributions from the private sector. The immediate objective is to support the private sector to become an "engine of growth" and a central pillar for increasing incomes and consequently reducing poverty on a sustainable basis. This strategy entails increasing productivity and profitability (for private firms) by reducing the cost of doing business and creating an environment where private investment is viable. There is no indication of potential conflicts with other Community policies.

3 AN ASSESSMENT OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1. The political situation

Since the National Revolutionary Movement (NRM) led by Museveni seized power in 1986 after a 5-year bush war, the NRM and its chairman, the President, dominate the political system. The NRM system was defined as a no-party system that welcomes all who wish to contribute to building the future of the country on a new basis. The existing parties are recognised and accepted but with strict limitations to their authorised activities (as enshrined in the 1995 Constitution), in particular elections are not based on political party campaigning. The June 2000 referendum on the choice of a political system demonstrated a strong majority for the continuation of the movement system.

There are significant democratic elements: genuine local elections took place, and after the adoption of the Constitution in 1995, presidential and parliamentary elections. Parliament has a role to play and asserts itself vis-à-vis the government. The private owned media are outspoken, although they are sometimes harassed. People arguably do not fear to express their opinions.

The 2001 presidential elections provided, with the apparition of a strong contender, an opportunity for progressive political diversification, inside and around the NRM. In many parts of the country the campaign and the voting were conducted fairly correctly, despite important technical weaknesses and some acts of violence from various sides. The incumbent won with a significant majority (69%). Promises for democratic openings are still vague but the intentions of the government will be put to the test during the constitutional review process recently launched.

The human rights situation has improved dramatically with the new regime, but there remains a lot to improve upon (arbitrary arrests, mistreatment of prisoners, an inefficient judiciary, etc.). It will be necessary to continue to support efforts to promote and improve human rights and basic democratic patterns. This justifies support to bodies like the official Human Rights Commission, and NGOs. Apart from the North and South West areas affected by rebellions, there is a general sense of security and of not being exposed to exactions from State organs.

Armed rebellion is still quite active: in the North, mainly in the Acholi districts, at the hand of Kony's Sudanese based Lord's Resistance Army (LRA) and in the South-West where the Allied Democratic Forces (ADF), based in the DRC, act around the Rwenzori, although to a lesser extent than in the past. The LRA rebellion has largely disrupted the economic and social fabric of the Acholi, who feel neglected and outside the mainstream of Uganda. There is as yet no firm indication of an end to the conflict, despite discussions and agreements with Sudan. In addition, although this has no political motivation, the activities of the Karimojong warriors in the North East cause a lot of disruption and insecurity inside Karamoja and in the neighbouring districts.

The reasons given for intervening initially in Congo (preventing Ugandan rebels from operating from that country, avoiding a new genocide, preventing Sudan from using Congo as a base from which to support Ugandan rebels) are not fully convincing. The war is widely unpopular and has several negative aspects, in addition to the suffering in Congo, such as: the diversion of budget resources for military, although these are limited to 2% of GDP (15.6% of the budget); a negative impact on foreign investment and diversion of national private investment to speculative activities linked to the war; increased opportunities for corrupt activities (looting of resources, shoddy deals in acquisition of arms) increasing the level of corruption in the country. It also hardens the control of internal political life: no dissidence is tolerated in the NRM on this issue and Parliament is prevented from genuine debate. This enhances worrying tendencies towards a less open and evolving political system.

Uganda continuously affirms its full support to the Lusaka peace process. It has demonstrated good will through the successive withdrawal of troops since March 2001 and could play a useful role in trying to broker a deal with President Kabila's allies, while restraining its protégés among Congolese rebel movements.

3.2. Public finance

GoU has been pursuing public service pay reform for a number of years but the majority of staff has had no significant real increase in salary. While Uganda has a relatively good budgeting system, accounting for public expenditure under the present system is weak and the existing procurement system constitutes a major constraint to effective service delivery.

To address these weaknesses GoU has completed a first round of reforms, including a new pay strategy consistent with the MTEF and improved service delivery. GoU has issued a new procurement regulation for the ministries, departments and agencies and it has established a coordination mechanism for guiding and monitoring financial management reform. The reform is expected to pick up speed with the recent approval of several donor-funded initiatives (EFMP II, LGDP). Improved management systems and practices in the public service are key results expected form the PRSC and satisfactory progress needs to precede the approval of the second phase of this WB credit.

3.3. Governance

In 2001, Uganda was categorised as one of the most corrupt countries in the world by Transparency International. Corruption has become a critical and pervasive issue for GoU. Efforts have been made to tackle this problem, e.g. the Ssebutinde report on the police force and the plan of action of the Ministry of Ethics and Integrity. In July 2000, the President launched the Government Strategy and Plan for Action to fight Corruption and Build Ethics and Integrity in Public Office and created the institutions to implement the plan but the programme is still lacking adequate resources.

Monitoring the fight against corruption as identified by the Plan of Action will need to be pursued vigorously. The international community will be fully involved in monitoring GoU's progress in implementing these reforms. Civil society is associated as well, but its involvement is jeopardised by lack of capacity and resources. The recent WB private sector survey, indicates that the competitiveness of the private sector was being greatly undermined by four key impediments: (I) inadequate and poor infrastructure; (ii) underdeveloped financial sector; (iii) high levels of corruption; and (iv) restrictive regulations, red tape and a lack of business services.

3.4. Economic situation, structure and performance

Uganda's macroeconomic situation improved considerably in the nineties with a real rate of GDP growth of 6.9% per annum since 1991 resulting in an average annual increase in real GDP per capita of 3.7%, and annual average inflation maintained below 10% since 1994. The economic activity slowed down in FY 1999/2000 with real GDP growth declining to 5.1% and inflation rising to 6.3%, mainly due to the increase of food prices. The economic slowdown is continuing with a GDP projected to grow by only 5% in FY 2000/2001 and by 6% in FY 2001/2002. With about USD 320 GDP per capita, Uganda still ranks among the poorest countries in the world.

Despite these recent developments, which have been largely due to the adverse terms of trade, (a fall in international coffee prices and an increase in oil prices), the outcomes are positive. The reform programme implemented since 1986 has been successful at establishing fiscal discipline, opening up the economy and promoting reliance on market forces. GoU is pursuing a comprehensive privatisation programme with about two-thirds of Uganda's public enterprises privatised in the past decade, including the liberalisation of financial institutions, coffee and telecommunications. Reforms of the power utility, airline, railways, water and other public enterprises are ongoing.

Uganda was the first country under the HIPC initiative to reach the completion point of a debt reduction package in 1998. The estimated net present value of the country's debt relief is USD 1 billion and the debt-to-export ratio has been reduced to about 150%, down from 243% in 1997. Reducing the debt burden has contributed to Uganda's recent economic growth.

Donor funding, excluding development projects, is projected to be as high as 10.1% of GDP in FY 2000/01. GoU recognises that it cannot rely on donor aid to finance the budget indefinitely and that it is necessary to mobilise additional domestic resources. At present dependence on aid for the budget and the balance of payments is still at least as large as it was ten years ago.

Uganda's revenue/GDP ratio of 11.3% is one of the lowest in the world, well below the sub-Saharan average of 18%. Such a low level threatens the sustainability of the macroeconomic situation since GoU lacks own resources to finance its policy. Domestic revenue will need to significantly improve if Uganda's reliance on foreign assistance is to be reduced. A small tax base, inefficient revenue collection system and a big component of non-monetary GDP (estimated at 23% in FY 1998/99) explain the low domestic tax revenues. But increasing predictability and reducing red tape are also needed in order to develop investment and promote regional integration.

Inequalities in the distribution of income, with growth in the sectors where the majority of the poor are occupied lagging considerably behind the performance of the other sectors during the past two years. The poor performance of the agriculture sector raises concerns and indicates that the extent to which growth is broad-based is limited: half of the 46% of household active in "food crops" are below the poverty line, whereas the overall average of the population below this line is 35%.

The sustainability of high economic growth in Uganda is an issue. Firstly, the economy is heavily dependent on agriculture (estimated at 43% of GDP in 2000) and is thus vulnerable to droughts and plant diseases. Secondly, the economy is subject to external terms of trade shock: coffee (60% of its exports) and oil (10% of its imports) prices. Thirdly, the potential for growth resulting from economic reforms and rehabilitation of the economy from the past has now been largely exploited, and therefore a broader agenda is required. Finally, internal and external security poses a serious risk and could cause a diversion of resources to defence expenditures and undermine confidence in the economy. To ensure continued high economic growth and to decrease vulnerability to exogenous shocks, an economic transformation is needed.

Private investment as a share of GDP has increased from 7.8% in FY 1990/91 to 9.7% in FY 1998/99, but it remains quite low compared to other Sub-Saharan countries. The growth of private investment is limited by the domestic rate of savings, amongst the lowest in the world at 5.7% of GDP in FY 1998/99, compared to 13.3% for Sub-Saharan countries. This has not been helped by the problems in the banking sector and the low or even negative creditor interest rates. The financial system lacks an organised market for channelling savings into investments.

Increasing private investment, whether domestic or Foreign Direct Investment (FDI) is a critical challenge for Uganda. FDI could provide the most stable channel of long-term capital and could bring higher technology, quality employment and even entrepreneurial skills to the country. Despite high rates of return, investors still perceive a high risk for FDI in Uganda. To attract foreign capital Uganda must offer stability, transparency and non-discrimination of its investment regime as well as integration of its economy in the international market.

As a relatively small, landlocked country Uganda is dependent on regional links. Unfortunately, Uganda's immediate neighbours are affected by poverty, economic problems, civil war (DRC, Sudan and Rwanda), and corruption (Kenya and Tanzania). Much of Uganda's trade must pass through Mombasa and Dar-es-Salaam, often with significant delays and problems resulting from corruption and inefficiency at these ports.

Uganda participates in a number of regional trade initiatives, including the Community of Eastern and Southern Africa (COMESA) and the East African Community (EAC), and is participating in the work of the Nile Basin Initiative. GoU has been lowering tariff and non-tariff barriers to regional trade and has removed all restrictions on international capital transactions. Uganda records the lowest level of border protection in the EAC and has adopted the WTO custom valuation agreement.

During the last years Uganda experienced a balance of trade deficit, which increased from USD 471 million in 1995 to USD 884 million in 1999, peaking at USD 1,097 million in 1998. Over this 5-year period, Uganda recorded a 17% loss in export value. The main countries of destination for exports are the EU (59% in 1999) and the COMESA member states (19%). South Africa is increasingly important with 5% in 1999, whereas the United States, Japan, Hong Kong, Australia and the Middle East altogether represent less than 4%. Over the same period, imports have increased by 30%, peaking at 56% more in 1998 than in 1995, due to well above average imports of feeding stuff, road vehicles and power and telecommunications equipment. In 1995, Uganda imported 28% of its goods from COMESA and 32% from the EU and has since diversified its suppliers. EU imports have decreased to 18% with a drop of more than USD 100 million, whereas COMESA imports have decreased to 22%, while maintaining their nominal value (USD 300 million).

3.5. Social developments

Uganda still ranks very low on the UN Human Development Index (1999). For almost all social indicators Uganda performs poorly. This reflects twenty years of social and economic disruption (from the mid-sixties to the mid-eighties) but also clearly reveals that macroeconomic stability has not yet been fully translated into better living conditions for the poor. While high levels of growth have resulted in an estimated reduction in absolute poverty, from 56% in 1992 to 44% in 1997 and more recently to 35% in 1999/2000[1], 95% of this reduction is attributable to economic growth. In order to improve social conditions GoU has allocated an increasing share of its budget to the social sectors. In 2000/2001, 34% of the MTEF were allocated to the social sectors with the major share, 19%, for education. Most of these funds are channelled through the PAF.

The reduction in absolute poverty recorded at the national level hides significant regional disparities. Economic growth has mainly benefited urban and cash crop growing areas, whilst the decline in poverty in other rural areas has been less pronounced. Poverty remains more severe in the northern and eastern regions, with respectively 65% and 42% living below the poverty line, compared with 20% in the central region The social imbalance is also growing as most recent surveys indicate that poverty amongst the largest group of the poor active in food crops declined only marginally from 64% in 1992 to 62% in 1997. This indicates that the lower income groups have in fact hardly benefited from economic growth. Several other factors account for the current disparities in incidence of poverty, including security, climatic variations, HIV/AIDS, the type of agriculture activity and the degree of access to infrastructure and social services.

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[1] MFPED, Poverty Status Report, 2001 – These figures have raised questions by certain donors and are still to be validated

Effective delivery of basic public services and improved access to quality education, health care and water and sanitation are core undertakings of GoU. Many of the constraints to service delivery are crosscutting and require improved collaboration across GoU agencies and departments. With the introduction of Universal Primary Education (UPE) in 1997 enrolment has increased considerably, especially for the poorer segments in society. There have been significant improvements in enrolment of girls, although there are significant regional disparities.

Life expectancy in Uganda has been estimated at 40 years[2]. Child mortality is high, with little improvement during the past decade. Illnesses such as HIV/AIDS and malaria contribute substantially to Uganda's poor health performance, although, in the case of HIV/AIDS, the recent marked fall in prevalence in urban areas could be considered very positive. Uganda is one of the first countries in Africa where HIV prevalence is declining: at the end of 1999 it was 8.3% in the adult population down from 15% in 1993.

Through the mainstreaming of gender issues into ongoing development processes, there are increased opportunities for men and women to participate in, and benefit from development initiatives. The Ministry of Gender, Labour and Social Development, in charge of the National Gender Policy indicated in its 2000 report that of the 17,000 persons in strategic decision-making positions in Uganda, 39% are women. While this is still regarded as a relatively low level of participation, it indicates a marked improvement compared to the early 1980s when women constituted only 6% of the decision-makers. Despite this encouraging quantitative data on the involvement of women in social, economic and political arenas, there is still much to be done to sensitise particularly rural communities on the role of women and girls in society.

3.6. Medium term challenges and sustainability

Sustainability of GoU's policy is an issue on which most development partners expressed concerns during the last CG in May 2001. Under the WB's PRSC programme there are a number of GoU undertakings to improve public service delivery and to increase accountability. The participation of non-state actors and donors in the monitoring and evaluation of these undertakings suggests a higher impact of future support to the budget.

To efficiently implement the PEAP and achieve poverty eradication, GoU needs more ownership of its development policy and more flexibility to improve public service delivery. Through the PRSC and the policy matrix that organises the evaluation of GoU's achievements in the four goals of the PEAP, development partners have paved the way for integrated and comprehensive co-operation. The progress of poverty eradication will depend on real improvements in accounting, internal controls and procurement as measured by the indicators of the PRSC.

Sustainability of economic development is another important challenge for the years to come that will only be successful through sound development of the private sector involving the economically active farmers. Sustainability of the PAF, and of maintaining high levels of expenditure in the social sectors, will be a challenge in the medium to long term. Increased efficiency of tax administration is a must. GoU and the private sector have designed to this effect comprehensive frameworks (the PMA and the MTCS), but their implementation lacks resources both for the public sector, that will implement the enabling environment, and for the private sector, which needs to be a fully operational partner in the process.

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[2] MFPED, Annual Household Survey, 1999/2000

4. AN OVERVIEW OF PAST AND ONGOING EC CO-OPERATION

Uganda has benefited over the period of the 8th EDF of an allocation of 210 million € from the NIP, supplemented by a structural adjustment allocation of 94.8 million and a Stabex transfer of 31.9 million to compensate export losses in coffee and hides and skins. The 1999 mid-term review positively assessed the achievements of programme implementation and agreed to release the second instalment of the 8th NIP. In addition to these funds, balances available from previous Lome Conventions have been allocated to support 8th EDF priorities.

4.1. Structural Adjustment Support (SASP)/Poverty Alleviation Budget Support (PABS)

GoU's reform agenda under the SASP initiative aimed at achieving the objectives of macroeconomic stabilisation, liberalisation of markets and structural adjustment, and public expenditure reform. It allowed for an increase of budget allocations to the priority sectors of the economy and facilitated budget discipline. The past SASP and the current PABS support GoU's expenditures in the priority sectors and on foreign exchange; they have contributed substantially to the foreign exchange requirements for imports, debt service obligations and to maintaining the target for foreign exchange reserves and balance of payments.

The on-going PABS 4 structural adjustment support programme is consistent with GoU's poverty eradication policy. The on-going PABS 4 contributes to meeting the PEAP targets for education and health by supporting these sectors through PAF budget support. Co-ordination with other donors is ensured in various for such as Public Expenditure Reviews (PER), review missions for health and education, local co-ordination meetings and quarterly reports on PAF.

4.2. Infrastructure

The Commission has been traditionally involved in support to the transport sector, with an emphasis on roads. In addition to regional and Stabex funds, 55% of the 8th NIP has been allocated to road projects. Stabex funds have also been allocated to rehabilitate sections of the railway network. Support has been up to now mainly project oriented, although in-line with the priorities indicated in the RSDP. GoU, under WB funding, has carried out a number of policy studies to define a comprehensive approach to a new road sector policy. The current analysis of the situation has identified institutional weaknesses in the maintenance and policy approaches.

4.3. Rural Development

4.3.1. Natural resources

Commission support to natural resources began in 1988 as a component of the larger WB's Forestry Rehabilitation Project. The next phase of support to forestry up to mid-2001, has made significant progress towards the sustainable and participatory management of Uganda's natural forests within key Forest Reserves. The Commission is a major donor in Uganda's forest sector and is funding around 90% of the next five-year programme. The programme has three themes: biodiversity conservation of key forest areas, sustainable forest production, and the creation of new saw log resources with emphasis on private sector investor participation to reduce the pressures on natural forests.

4.3.2. Agriculture

The Commission has been present in Uganda in the agricultural sector for many years and has built partnerships in several sub-sectors. Until recently, projects were relatively small and the coverage of the sector was seriously split. This led to significant overhead costs and major management problems, but enabled the Commission to gain wide experience at the grassroots level. In order to improve the coherence of its involvement in the sector, the Commission has extensively supported and facilitated the preparation of the PMA during the last 3 years, directly and through the interim secretariat. The Delegation has participated in several joint donor missions on the PMA and has provided programming and planning advisors to the MAAIF.

4.4. Private sector

The Commission has been involved in several specific programmes and projects to support public financed institutions promoting private sector development. There has been limited success in improving the efficiency of these institutions due mainly to the lack of genuine private sector involvement and the weak impact of this support on improving the enabling environment. The Commission is an active member of several MTCS monitoring technical working groups (TWG) that facilitate the MTCS process by developing co-ordination between the agencies involved in the process. It has taken the lead for the "globalisation/regional integration" TWG and is currently preparing a redesign of private sector support within the MTCS framework.

4.5. E.I.B. activities

The European Investment Bank (EIB) is very active in Uganda. It supports private commercially viable projects through loans and risk capital. Several schemes have been put in place by the EIB. Among these, the APEX credit line for private investments managed by Bank of Uganda (BoU) and a consortium of local commercial banks is working very well. The two first credit lines amounting to 40 million € have facilitated developments in export and domestic oriented projects; a third programme of 40 million € will be finalised in 2001. The EIB has provided loans or risk capital of about 100 million € to several private investors. However, absorption capacity is limited in the lower segments of the market and there is a need to develop better synergies between EC support to the private sector and the interventions of the EIB in order to expand the coverage of the investment facility to small and medium scale enterprises.

4.6. Decentralisation

Some of the programmes funded on a sector and/or geographical basis were effective contributions to the implementation by districts of key policies in the areas of health, education, water and feeder roads. Tangible results have been achieved through the provision, in addition to budgetary support to some districts, of capacity building to strengthen capacity in planning, training, conducting participatory needs assessments and by increasing community mobilisation through micro-projects. The Acholi project and the second phase of the Karamoja project build on these experiences by injecting development funds into the local government systems, supporting projects identified by communities and the lower level government system, aimed at building capacity to provide better quality services. Efforts are being made to integrate decentralised support with existing local government structures.

4.7. Rule of Law, Good governance and Human rights

The recently approved programme to support Human rights, democratic principles, and rule of law and good governance is the first Commission support to this sector. The NIP programme reinforces the existing Human Rights Budget Line projects. This programme entails support to key public institutions involved in the promotion of human rights and good governance, as well as funding for NGOs and CBOs.

4.8. Education

Education has received funding nearly every year since 1993, with annual amounts from FY 2001/2 to FY 2004/5 expected to be 5 times what they were between 1992 and 1999. PABS 4 under the 8th EDF will continue to support UPE through the PAF. If a proportional share of general budget support is included, assistance will double for that period, representing about 20% of all external funding to the sector. Over the period 1993-2005 EC funds for education will have amounted to €89m, of which 11% provided in project aid, 52% earmarked for sector support and 37% in general budget support. A shift in policy under the 8th EDF resulted in a focus on primary education, with specific programme support provided directly to the education budget for teacher development, primary school infrastructure and capacity building at district and central levels. EC support to education has received positive evaluations.

4.9. Health

Under the 7th and the 8th EDF, financial support from the NIP towards health, together with specific budget lines and regional projects, has increased with a focus on three specific sub-sectors: district delivery of primary health care services, to the Uganda Blood Transfusion Service (UBTS) and to reproductive health and HIV/AIDS prevention. Within the context of decentralisation, district health systems and partnerships with civil society were strengthened, through the creation of district health management teams and community mobilisation activities. Support to UBTS has helped provide an effective national safe blood programme, thereby contributing to the declining prevalence of HIV/AIDS. These programmes have received positive evaluation. The Commission has also designed a programme to support Human Resources for Health aiming to increase the share of trained staff in health services.

4.10. Stabex

Uganda has benefited under Lome IV from Stabex transfers in 1990, 91, 93, 95 and 99 of a total amount of 175 million €. These funds were made available to compensate export losses from coffee, tea and to a lesser extent hides and skins. Whereas the successive FMOs have mainly focused on the use of funds for export diversification and support to the agricultural sector, they have also provided funding to priorities identified by the NIPs such as education in rural areas. More recently, GoU has proposed to use a substantial part of the Stabex 99 allocation through direct budget support within the PAF to support the implementation of the PMA. In order to stick as closely as possible to the evolving priorities identified by GoU, the Stabex quick disbursement facility FMOs has been subject to several riders.

4.11. ECHO

During the past years ECHO has signed a number of contracts with various NGOs or other partners (such as UN agencies) involved in humanitarian activities in Uganda. The amount *vis-à-vis* other countries in the region has however been relatively small. Over the past year ECHO has financed small-scale projects supporting Internally Displaced Persons (IDPs) in

Western and Northern regions particularly affected by rebel activity. In addition the short-term emergency emanating from the Ebola outbreak in late 2000 provided the classic reason for emergency support. Based on the generally accepted policy that humanitarian intervention should be confined to emergencies where development assistance is not possible, ECHO has not expanded its presence in Uganda.

4.12. Other budget lines

There are several budget lines available to non-government institutions within Uganda. These include the NGO Co-financing Budget Line (BL); Human Rights and Democracy BL; AIDS BL; Forestry and Environment BL; Gender BL. These BLs are administered by headquarters and the written guidelines for selection of projects have also been produced at central level. In Uganda, where a well-functioning government is in place, the role of budget line funding has been to complement structures already in place avoiding the creation of parallel structures. At the same time the budget lines contain the flexibility of being able to fill gaps where GoU and EDF involvement has been less apparent or where NGO have a comparative advantage.

4.13. All-ACP Funds

Diagnos[3] missions in Uganda have supported co-operation in the private sector by conducting a preliminary analysis of the environment and by identifying priorities for interventions. The missions could have been better supported by local consultants and spent more time on local investigations. The expertise deployed provided a useful basis but has required further local expertise to finalise the interventions in the financial sector. Additional Diagnos resources were available to identify EC support to the reform of Commercial Justice.

The EBAS[4] programme managed from neighbouring Kenya did not pick up very fast in Uganda due to the lack of direct local support. To improve market responsiveness, the EBAS regional management has recently organised permanent contacts with a local consultant that supports the programme in Uganda and has allowed it to take up. It has proven to be a useful tool for capacity building in the private sector, although it focuses mainly on large-scale enterprises.

4.14. Lessons learned

The evaluation report of the EC Country Strategy for Uganda during the period 1996 – 2000 draws critical conclusions on its relevance and on the way previous country strategies and evaluations have been carried out. In 1996, there had been little consultation with the EU Member States and none at all with the civil society. It must be underlined that at that time the consultative process concentrated on the NAO for the preparation of Country Strategies. The selection of sectors had also been influenced by political constraints, not always based on continuity and the funds were spread across a multiplicity of interventions. Due to highly fragmented programmes the tasks of co-ordination and monitoring stretched the resources available. In addition EC projects had not always focused sufficiently on capacity building and could have had a stronger poverty focus within the PEAP framework.

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[3] Analysis of regulatory framework and policy environment
[4] Assistance scheme for increasing business competitiveness

The weakness of the Commission's past strategy was recognised several years ago. Consequently EC support in Uganda has gradually moved towards sector-wide approaches at a pace compatible with the progress made by GoU towards sector policies and implementations. In several cases the Commission assisted GoU in the design of these policies, like in Education and for the PMA.

EC co-operation with Uganda has recorded a number of successes that are paving the way for the 9th EDF. Structural adjustment support has contributed to macroeconomic stability, which has proved to be the main engine of economic growth over the last 10 years. It has also contributed to increased budgetary discipline and improved accountability that has helped Uganda to qualify for HIPC. The Commission sector support to the education policy in Uganda has shown that efficiency can be gained when donors co-ordinate their efforts within a sector through the budget. Such a sector approach, in addition to global budget support, has motivated GoU to ensure more transparent implementation of its plans. Agreed monitoring and evaluation procedures and a more effective outcome oriented evaluation process measuring results achieved in the sector, are gradually replacing the financial audits that track the use of funds, but not the outcome of the expenditures.

To maximise its contribution to institutional strengthening, the 9th EDF support needs to be fully integrated within a joint donor approach, targeting more ownership by the Ugandan authorities through extended budget support based on holistic monitoring and evaluation mechanisms. This applies also to the support of specific sectors (transport and rural development) where the Commission can build on ample experience gained through its interventions in the past. Although most of these interventions have so far been channelled through projects, the Commission has a comparative advantage in supporting the ongoing reform process thanks to its comprehensive knowledge of current sector weaknesses and strengths.

The response strategy of the European Community development co-operation under the Cotonou Partnership Agreement will be guided by these experiences and lessons learned and it is proposed to channel 9th EDF support according to GoU priorities identified in the Uganda policy agenda. Whenever possible the transfer modalities themselves should increase GoU's ownership of its development policy. Budget support will therefore be given preference, even if the facilitation needs initially to focus first on the development and the implementation of the necessary conditions to allow such support. On-going projects will gradually be integrated into the overall response strategy.

5. THE RESPONSE STRATEGY

5.1. Introduction

To define its response strategy for the 9th EDF, the Commission has largely consulted the local representatives of the member states and has built a consultative process with the civil society, based on the existing GoU process. Consultation with these partners has led to integrating of EC support within the existing poverty eradication programmes, already endorsed by the BWI. Focusing on sector and budget support, this approach will help in building capacity and in strengthening institutions. The process will be based on GoU's evaluation and monitoring mechanism without adding specific requirements that could divert GoU resources. When finalising this approach the recommendations of the evaluation of the past strategy have also been taken on board.

The EC response to the development and poverty reduction challenges in Uganda -- notably concerning the identification of the focal sectors of support - is designed to assist in sectors that are considered key for the future development of the country. The EC support through the 9th EDF will be integrated into the PRSP process and limit direct project funding to a strict minimum. The response reflects in particular the following elements and criteria: (I) the development priorities of the government, as laid down in the PEAP, PMA, RDSP and MTCS; (II) the financial requirements and implementation capacities in the sectors concerned; (III) the historic development relationship between the EC and Uganda, its strengths and weaknesses; and (iv) complementarity with other donors, in particular EU Member States.

All 9th EDF resources and EC budget lines will -to the extent possible- be programmed in due course and used to support the principles of this CSP. The specific focus of the various instruments is outlined in this section.

Based on the above, two focal sectors for EC support have been identified: (I) transport and (II) rural development. These focal sectors will be complemented by macroeconomic support and other activities that will have a common thematic approach: capacity building for Governance and Non State Actors. In all sectors, programmes and projects, co- or parallel-financing with other donors specifically EU Member States will be a distinct possibility.

In Uganda, earmarked budget support has shown its limitations. These sectors have sometimes been over funded and could not absorb the support provided by donors, but because of donor driven budget allocation, GoU could not reallocate the balances available to other priority areas of the PEAP or use them to improve the absorption capacity in these sectors. To increase the poverty eradication impact of donor support, the current analysis endorsed by several member states (UK, Ireland, The Netherlands and Sweden) and the BWI, goes towards support that addresses the PEAP as a whole (holistic approach), allowing GoU to improve budget allocation on the basis of poverty eradication priorities instead of donor demands for earmarking. Release of such support will continue to depend on the outcomes of GoU's implementation of all the goals of the PEAP and should go together with specific capacity building to improve GoU's management of the budgetary process.

Trade is instrumental to promote growth and to reduce poverty. Important trade negotiations, both on a regional and multi-lateral basis, are now on Uganda's agenda. The Commission will support Uganda in carrying out negotiations in a regional context with emphasis on preparing for the EPA and on WTO and in implementing the accompanying trade policy and structural reforms. This will include building capacity in the area of trade policy that, inter alia, will assist Uganda to take advantage of market access under the EBA and to diversify its exports.

The indicative financial allocation of the 9th EDF is divided between an allocation under the A-envelope of 246 million € and a B-envelope of 117 million €. The A-envelope, is programmed in the 9th NIP whereas the B-allocation covers unforeseen needs such as emergency assistance, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

5.2. Macroeconomic Support and Economic Reform - (38% of the A-envelope)

5.2.1. Macroeconomic support

5.2.1.1. Budgetary discipline

In the framework of the PRSC, GoU is committed to further strengthening the MTEF process and improving public services efficiency. Effectiveness will be measured in terms of outcomes and by progress in the reform implementation. Given GoU's strategy to improve its poverty eradication objectives through focused policies, continued EC macroeconomic support can be programmed. Such support will further facilitate GoU's process towards integrating its development priorities with the PAF and the MTEF, including for social sectors. In order to successfully report on its undertakings, GoU will have to demonstrate its ability to actually implement good governance. By using the existing evaluation and review procedures it will be possible to assess GoU's capacity to implement efficient and transparent public delivery services.

The budget process in on track and the current macroeconomic stability and growth allows the Government to provide substantial public resources to activities aimed at poverty alleviation. Global EC support to the budget will allow GoU to directly fund the poverty eradication priorities identified in the PEAP. It will also encourage GoU to speed up the application of improved co-ordinated evaluation and monitoring mechanisms for all sectors, including good governance and social sectors.

5.2.1.2. Social sectors

Social sectors play a key role in the poverty eradication strategy of the Government encompassed in goal 3 of the PEAP. In order to increase ownership in the process, macroeconomic support does not earmark the use of funds provided. Instead the achievement of results in these sectors, as measured by performance indicators, will condition continued budget support. Evaluation and monitoring in education and health are already well co-ordinated through bi-annual sector reviews that monitor targets, set new targets and judges whether progress against agreed undertakings is satisfactory. During these reviews, the Commission will ensure that the EU development priorities for social sectors are fully reflected in the targets retained.

5.2.1.3. Performance indicators

Release of EC funds for macroeconomic support will be triggered by agreed performance indicators. In line with the targets adopted by GoU for the PRSC, EC support will be linked to satisfactory reviews of the PRSC: efficient and equitable use of public funds; improved service delivery through cross-cutting reforms; improved quality of education; improved quality of health care; improved access and quality in water and sanitation.

To assess the success of GoU's policies and the relevance of global budget support, a wider range of benchmarks has been selected encompassing achievements in the field of good governance and in the social sectors.

EC macroeconomic support will be triggered by:

- Macroeconomic stability;[5] maintenance of macroeconomic stability based on inflation, growth and fiscal monetary performance targets, monitored by BWI.
- Quality of public finance management and equitable use of public funds: improved public financial management systems and practices, agreed MTEF for 2002/03, 2003/04 and consistent budget execution together with staffing plans and wage bill incorporating output and outcome measures; improve service delivery through crosscutting reforms.
- Quality of education: progress towards the achievement of UPE, and the elimination of gender disparities in education, currently (2000-2003) measured through twice yearly education sector reviews, with a concentration on specific critical quality indicators: pupil/teacher ratio, pupil/textbook ratio, pupil/classroom ratio and the percentage of the appropriate age range of girls and boys in P1. (These indicators will continue to be monitored, alongside the development of broader goals).[6]
- Quality in health: progress in health service delivery measured through twice-yearly reviews, including performance indicators in DPT3 coverage and the percentage of health centres staffed with trained staff. (These indicators will continue to be monitored alongside the development of broader goals).[7]
- The current PABS programme for macroeconomic support to Uganda will be released in three tranches, including the initial one released during FY 2000/01. The subsequent ones will cover the next two fiscal years and are linked to indicators in education and health. During this period GoU will have to implement its undertakings under the PRSC, in order to secure the conditions for global budget support under the 9th EDF from FY 2003/04.

5.2.2. Economic reform

Economic growth in Uganda can only be sustained through genuine private sector development. Diversification of supply is crucial to reduce the exposure of Uganda's economy to commodity price fluctuation. In addition to the current support programmes under the 8th EDF, including all-ACP programmes, there is a need for increased capacity building in the private sector and for the development of an enabling environment facilitating private sector growth. In accordance with the Cotonou Agreement and in the framework of the MTCS reform programmes, a pro-active role in trade co-operation will be taken, in particular by leading donor co-ordination that will support the private sector development in Uganda, especially in the framework of regional integration, export strategy and trade policy. **Support to the MTCS** will go beyond supporting GoU departments and agencies and will provide capacity building directly to the private sector. Support for the negotiations in the WTO context in line with the Doha Development Agenda it is forseen as well. The Commission will develop furthermore this component of its support to economic reform in line with existing or foreseen programmes of EU Member States and by developing synergies with the activities undertaken by the EIB with the Investment Facility.

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[5] Given the current world economic situation, the BWI are revising their forecasts. The Commission's performance indicators will be consistent with the revised forecasts.

[6] Millennium Development Goal (MDG) 2: achieve primary education and MDG 3: promote gender equality and empower women.

[7] MDG 4: reduce child mortality, MDG 5: improve maternal health, MDG 6: combat HIV/AIDS, malaria and other diseases.

As a landlocked country with a limited domestic market, regional integration is an important opportunity to secure Uganda's economic and democratic development. Although several specific all-ACP programmes available will be called upon to facilitate this process in Uganda, specific national **support to regional integration,** as a specific component of the MTCS, would be required to increase the capacity of the public and private sectors to be fully involved in the process and to seize all the opportunities of a wider regional market.

In addition to the existing EFMP, LGDP and CAPED, the finance and planning process in Uganda requires additional capacity building. In MFPED, the Aid Liaison Department (ALD) will need at a very early state specific capacity building to implement the partnership principles enshrined in GoU's PEAP 3 plan to integrate donor funded projects and programmes into the MTEF. The Tax Policy Department (TPD) will play an increasingly important role in securing revenue and in developing a more predictable and transparent fiscal policy, an essential condition to increase the sustainability of the budget process. The Commission will **support capacity building in finance and planning** in the either through earmarked support to the MFPED budget or through specific budget funding. Additional support through long-term technical assistance will also provide the Commission with better access to information needed for the monitoring and evaluating its macroeconomic support programme.

Economic reform will be conditional upon:

- Enabling environment: private sector investment in line with Sub-Saharan average, clearly defined responsibilities within GoU and implementation of the MTCS;
- Outward oriented trade policy: active negotiations paving the way to regional integration and EPAs, together with the preparation of the private sector to face the impact of globalisation.

5.3. Focal Sectors for Co-operation

5.3.1. Transport - (38% of the A-envelope)

The preceding analysis of the transport sector indicates that improvements of the rural transport infrastructure are crucial for economic growth and reduction of poverty in Uganda's rural areas. An improved main road network alone will not bring adequate transport infrastructure within reach of most rural producers, hence further development of the district road network will be necessary. The analysis also indicates that institutional development at both central and district levels will be required to achieve the announced goals. Finally, an improvement in maintenance is required to consolidate investments in transport infrastructure.

In response to the above, interventions funded from the resources of the 9th EDF are foreseen in the following areas.

5.3.1.1. Institutional support

Following the planned establishments of the Road Agency institutional support is foreseen to the Ministry of Works (MoWHC). The work of MoWHC, redefined towards regulatory and monitoring functions, is facing serious constraints due to the lack of capacity of MoWHC staff. Policy formulation is vital for the transport sector and a considerable number of policy studies are on hold due to the inability of the Ministry to deal with strategic issues, in particular the policy framework for the maintenance of the feeder roads. Capacity building and training for the Road Agency and MoWHC staff, alongside technical advice is needed. The Commission will support MoWHC's budget to facilitate its capacity to fulfil its new mandate.

5.3.1.2. Support to maintenance

Part of EC funding will be directed to continued support to national road maintenance and axle load control. GoU is strongly committed to finance maintenance but it will probably need further support from donors to eliminate the backlog in periodic maintenance. It will have to be decided whether it is necessary to continue with the project approach or whether it is possible to target support directly to the RAFU budget, once the management of road maintenance is definitely transferred to RAFU. GoU's enforcement of axle load control is seen as a condition for disbursement of donors' funds, and therefore support to GoU for the construction of weighing bridge stations is foreseen.

5.3.1.3. Integration of the agricultural high potential areas of South West Uganda into the national road network.

South West Uganda is one of the most important agricultural districts of the country with a high density of population. At present the transport infrastructure serving this part of the country leaves much to be desired. Like in most of the country, the district roads are in poor state of repair and the main roads need urgent intervention to prevent a dramatic deterioration in the short term. Interventions are proposed at national and district level.

Intervention at national level

The central road serving this region is the 425 km national road from Kampala to Kabale. This road has been brought to bituminous standard over its entire length during the eighties partially with EDF financing. Major sections have undergone emergency repairs in 1999/2000 funded from STABEX counterpart funds. The condition of the road has been examined in detail during the same period and detailed engineering recommendations have been made to extend the technical life of the road for another 15 years. The optimal solution in this respect is priced at approximately EUR 135 million. Upgrading of priority sections will be proposed for funding from the 9th EDF. Additional financing can possibly be mobilised from regional funds, as the road in question also carries a substantial quantity of international traffic to and from the Great Lakes Countries.

Intervention at district level

Support to the upgrading of the district roads providing access from the productive areas to the main road can be provided in the frame of the PMA.

5.3.1.4. Performance indicators

By focusing primarily on the road network, the performance of the EC support will be measured by the completion of the Northern Corridor. By supporting institutional capacity and maintenance, achievements will be measured by:

The reduction of the maintenance backlog from six years to two years;

Increase of the share of national and districts roads in good to fair conditions to respectively 80% and 55%;

Reduction of the share of overloaded vehicles from widespread to marginal.

5.3.2. Rural development - (15% of the A-envelope)

5.3.2.1. Support to the PMA

Given the dominant role of agriculture in Uganda's economy, with 85% of Ugandans living in rural areas, sustainable development cannot take place without support to rural areas. GoU's objective of poverty eradication through a sustainable and dynamic rural sector forms the basis of the PMA, an integrated multi-sectoral framework to develop the ability of the poor to raise their incomes. Therefore, rural development and more precisely support to the PMA have been identified as the second focal sector for co-operation.

Over the last years the Commission has been an active partner in the process that has lead to the adoption of the PMA and its gradual implementation. All PMA instruments should be ready for implementation and funding from the budget in FY 2002/2003. The support to the PMA will be channelled through budget sector support. It will benefit components identified by the PMA stakeholders in the framework of the PMA Steering Committee according to GoU's priorities and the readiness of these components to absorb and account for the funds. Such components could be financed at district level through the PMA budget, for exemple, support to the upgrading of the district roads providing access from the productive areas to the main road can be provided in the frame of the PMA. Release of funds will be subject to the preparation by the Line Ministries and the PMA Secretariat of Development/Investment Plans compatible with the PMA principles and to the adoption of these plans by the PMA Steering Committee already in place.

5.3.2.2. Performance indicators

The PMA framework responds to goal 3 of the PEAP: increase the ability of the poor to raise their incomes. Although the expected results have been clearly identified, the way their achievement will be measured is still an issue to be agreed upon by the stakeholders, including member states and the Commission. The process will also be subject to regular reviews on the basis of GoU's evaluation and monitoring mechanisms.

Objectives directly related to income generating activities are:

- Increased share of marketed production as measured by the share of food production marketed and the decrease of the non-monetary component of GDP to sub-Saharan average;
- Increased productivity and food security countrywide;
- Decreased unemployment rates in rural areas;
- Ensured environment sustainability measured by identifying the proportion of land covered by forest and protected to maintain biological diversity.

5.4. Non focal sectors for co-operation - (9% of the A-envelope)

GoU has undertaken actions that focus on improving public service delivery in the context of decentralisation by reducing corruption and ensuring law and order. Commission support will target the administrative decentralisation process, the judiciary reform, human rights and non-state actors.

5.4.1. Decentralisation

The decentralisation policy of the Government was incorporated into the 1995 Constitution to ensure that it could only be reversed through constitutional revision. The Local Governments Act promulgated by Parliament in 1997 is currently under review to refine it further.

The key challenge this policy is facing is the lack of capacity of local governments for effective planning, management, and implementation of related policies and programmes. The support identified in the framework of the 9th EDF will mainly consist of capacity building at district and lower-level local government by providing local governments primarily through budget support with tools to enable them to handle decentralised services and ensure good governance by increased accountability and democratic participation. Such support will increase the resources available to existing GoU programmes such as the Local Government Development Programme (LGDP) and the Economic and Financial Management Programme (EFMP II).

In sectors and geographical areas of on-going EC funded interventions, some capacity building projects in support of local governments are already under way. The corresponding funds will be channelled as much as possible through budgetary support to increase local authorities' ownership of the process, provided that these same authorities are in a position to fulfil their accountability obligations vis-à-vis the central government.

5.4.2. Rule of Law and governance

The second area of support concerns the recently initiated Sector Wide Approach in the Justice and law and order sector (judiciary reform, penal and penitentiary reforms), and the fight against corruption through support to key institutions. It will come in addition to the contribution to the Commercial Justice Reform project from 8th EDF resources. The sector framework for the legal sub-sector is effectively quite new and the first joint review will focus on partnership principle to ensure adherence of the donors to a joint approach and to work out co-ordinated implementation and review modalities.

5.4.3. Human Rights / Democracy

The final area of support will be in the field of human rights, building upon the expected outcomes of the 8th EDF programme in that field. Depending on the evaluation of the on-going DANIDA-EC Human Rights programme, the Commission could consider the possibility of an additional contribution to this programme. Transferring Commission resources to existing Member State programmes would eventually reinforce the efficiency of the support to both public and non-governmental institutions active in the promotion, defence and awareness of human rights and democracy issues.

5.4.4. Institutional support to non-state actors

Support to non-state actors (NSAs) is given at various levels, reflecting their function as instrumental in ensuring diversification in the role of the stakeholders within all sectors as partners within the development process. The involvement of NSAs is crucial in ensuring the legitimacy of GoU policies on the one hand, and in holding GoU to account, and monitoring their ability to implement policies on the other. Based on this understanding, support will be given to NSAs, aiming at strengthening their capacity to enact their advocacy role – this both 'forward-linked', i.e vis-à-vis GoU, and 'backward-linked', i.e. vis-à-vis those they claim to represent. The capacity of NSAs in terms of service delivery will also be strengthened, to increase their role as implementers of Government programmes.

As agreed with the GoU, support to non-state actors will be given as an integrated part of focal and non-focal sectors under the 9th NIP, whether to the private sector, to organisations representing the PMA beneficiaries or to civil society organisations (CSOs) to increase their capacity to monitor good governance. A further 3% of the 9th EDF will be reserved for NSAs, without linkage to any particular framework already defined within the EC co-operation. The focus will be on CSOs, based on the increased recognition that they need to acquire and increase their skills and abilities of advocacy at local, district, national and international levels. Civil society involvement in policy formulation and monitoring will ensure that policies formulated are appropriate to the needs of the people, realistic, achievable and appropriate for sustainable development. It is therefore vital to ensure that support to civil society reaches all levels, in particular the community one, from where the needs originate.

Sectors		N-S-A	Total
Macroeconomic support & economic reform	35%	3%	38%
Infrastructure – Transports	38%	--	38%
Support to PMA	13%	2%	15%
Capacity building in good governance	4%	2%	6%
Institutional support to non-state actors	--	3%	3%
Total	90%	10%	100%

5.5. All-ACP funds

In terms of the private sector, development facilities like EBAS, DIAGNOS and ProInvest[8] continue to exist. In addition, the services of the Centre for the Development of Enterprise (CDE) that provides support for project identification, feasibility studies, market surveys, financial diagnosis, start-up assistance can be called upon, especially to support Uganda for the preparation of regional integration, EPA and WTO negotiations. All ACP funds are expected to supplement A-envelope funds for capacity building in economic reform.

5.6. Regional co-operation

The 9th EDF earmarks 1.3 billion € for regional co-operation. Regional Support Strategies will be developed for groupings of countries defined by the ACP countries themselves, but which should preferably correspond to existing regional groupings with a mandate for economic integration. Negotiations on the content of such a Regional Strategy Paper are not yet concluded, but given the regional context Uganda finds itself in and taking into account the history of EDF regional co-operation in Eastern Africa, it can be expected that trans-border infrastructure, food security, conflict prevention and support for economic integration will be elements of a future RSP. This would mean that such a strategy would clearly complement Uganda's national strategy and that additional resources would become available to the key sectors of intervention identified in this document for cross-border projects and programmes.

5.7. ECHO

The emergency situation in Uganda is considered stable if not improving; therefore not warranting large ECHO funding. In application of its mandate ECHO gives priority to humanitarian emergency responses to crisis situations on the ground. In Uganda this may include refugee influxes and IDP movements, natural disasters and epidemics such as Ebola

[8] Institutional empowerment and sector promotion

and Cholera. Secondly there are short term, well-designed actions to address humanitarian needs of chronic caseloads. In order to avoid being engaged in protracted commitments, such interventions would be considered on a case-by-case basis, and linked to a well-defined exit-strategy. Lastly, ECHO also considers short-term rehabilitation and reintegration projects, focusing on the resettlement of IDPs in their places of origin.

5.8. Community Budget Lines

Budget lines available to Uganda in the past will probably remain. The current strategy of assessing projects on a case-by-case basis, while ensuring overall complementarity and coherence with EC interventions and GoU priorities, will continue to be the dominant approach.

5.9. Consultation process

The stakeholders to the national development strategy have been duly involved in the preparation of the CSP. The way it has been elaborated with GoU is in line with the Cotonou Agreement, both at the programming stage and later for the monitoring. A participatory approach involving civil society and the private sector has systematically been carried out. A first workshop was organised to present the Cotonou Agreement and the programming principles. Participants of the private sector and the civil society worked together with representatives from donor agencies and from public administration and Parliament to help in the identification of priority areas where the EC is perceived, as having an advantage in ensuring an appropriate role for the state and non-state actors, avoiding duplication of efforts and resources.

A second workshop brought together a more selected number of stakeholders. Although the participants were given a clear indication of what the EC delegation, Member States and the NAO had already tentatively identified as being "focal sectors", the discussions went well beyond this framework. Participants were asked to contribute to the definition of a strategic framework paving the way to a log frame for the 9th EDF programme of the EC in Uganda. The outcome of this process has contributed to the identification of the goals, objectives and indicators that form the basis for the work programme.

5.10. Complementarity between development partners (EU Member States and others)

The EU role in Uganda is quite important since Uganda is the main beneficiary of the development programmes of several Member States (UK, Denmark, Ireland, The Netherlands), whereas not all Member States are directly represented in the country (Spain, Portugal, Greece, Finland, Luxembourg). Several Member States have selected Uganda to develop a global partnership for development. UK, Denmark, Ireland and The Netherlands are directly supporting the budget and provide major assistance to sector wide approaches. Others have mainly developed bilateral assistance programmes, in line with GoU's policies, but not always within co-ordinated sector approaches (France, Italy). Austria, Belgium, Sweden and Germany, who have important bilateral portfolios, are moving towards integrating their support within a co-ordinated framework such as ESIP, PMA or MTCS.

The EC response strategy is coherent with the main priorities identified by donors, and the proposed support is fully in line with the Comprehensive Development Framework (CDF), which the Government adopted in the PEAP. The EC will work closely with other development partners, in particular the BWI, in the design of the national development policy in Uganda.

PART B

INDICATIVE PROGRAMME

6 INDICATIVE PROGRAMME

6.1. Introduction

Within the Country Strategy presented in part A and in accordance with the provisions of Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up in a series of tables presenting the intervention frameworks for each focal sector, the indicative commitment and expenditure schedules, detailed activities chronogramme, for all activities during a two-year rolling period.

6.2. Financial instruments

Several financial instruments will be used to finance the EC co-operation with Uganda. The following is an indication of their mobilisation as presently envisaged.

1. *EDF 9 – Envelope A* (246 M €). This envelope is to cover long-term development operations within the Country Strategy. The indicative allocation of this envelope to the elements of the strategy is proposed as follows:

   - Transport (roads), 93.5 M€

   - Rural development, 36.9 M€

   - Macro-economic support, 93.5 M€

   - Other programmes (governance, non-state actors, reserve), 22.1 M€

2. *EDF 9 – Envelope B* (117 M€). To cover unforeseen needs as indicated in the Cotonou Agreement, Annex IV, Article 3.2 (b).

3. *EC budget lines* could be used to finance specific operations. Finance from this instrument will be decided in accordance with the procedures for the budget line concerned and will depend on availability of funds.

   Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the "Investment Facility" as a financing instrument managed by the European Investment Bank (see details in Part A, chapter 5). The Investment Facility does not form part of the Indicative Programme.

6.3. Focal sectors

6.3.1. Transport

The following specific objectives shall be pursued:

- To sustain economic growth, reduce poverty and promote regional integration;
- Improved flows of traffic and goods;
- Improved road connectivity with neighbouring countries;
- Improved transport policy development and implementation;
- To provide a safe and sustainable transport network reducing transport costs and improving access to rural areas.

The major interventions foreseen are (1) the provision of training, technical assistance and surveys destined to strengthen the MoWHC and the establishment of the future Road Agency: (2) support to national road maintenance and axle load control and (3) rehabilitation of priority sections of the main road between Kampala and Kabale.

The major policy measures to be taken by the Government of Uganda as the contribution to the implementation of the response strategy in this sector are:

- Government will establish a National Road Authority in charge of the management of the country's main roads.
- Government will reduce its periodic maintenance backlog and ensure sufficient resources for RAFU,

For indicative purposes, approximately 93.5 million € will be reserved for this sector.

6.3.2. Rural development

The following specific objectives shall be pursued:

- Directly increase the ability of the poor to raise incomes and the quality of their life,
- Increase productivity and the share of marketed production,
- Provide gainful employment through secondary benefits of PMA implementation such as commercial farms, agro-processing factories and rural services,
- Promote sustainable use and management of natural resources by developing a land use and management policy and promoting of environmentally friendly technologies.

The major intervention foreseen will be to finance the PMA through the PAF.

The major policy measure to be taken by the Government in this sector are:

- Preparation by the line Ministers of Development/Investment Plans compatible with the PMA principles

For indicative purposes, approximately 36.9 million € will be reserved for this sector.

6.4. Macroeconomic support and economic reform

The Community will support the macroeconomic reform programme of GoU. Special attention shall be given to the objective of poverty reduction, particularly with a view to ensuring equitable access to social services. Macroeconomic support shall be delivered under a three-year programme. Funds shall be disbursed on an annual basis. If an annual disbursement is not realised within the time limit foreseen, the corresponding amount can be transferred to one of the other sectors of co-operation in the NIP. Such a decision can be taken in the context of the annual review.

Prior to releases of budget support the ALD and TDP of MFPED will benefit from support for capacity building to improve the management of the development process by GoU. Support for regional integration and to the MTCS will be designed according to GoU's priorities and through comprehensive consultation of the private sector and EU Member States having private sector activities or commercial missions in Uganda.

For indicative purposes, approximately 83.5 million € shall be reserved for budget support in addition to 10 million € for the economic reform process that will support the sustainability of economic growth.

6.5. Other programmes

An indicative amount of 22.1 million € has been reserved for the following purposes:

- Capacity building for good governance;
- Institutional support to non-state actors;
- Contribution to regional projects and programmes;
- A reserve for insurance against possible claims and to cover cost increases and contingencies.

6.6. Intervention framework

6.6.1. Focal sectors

6.6.1.1. Transport

Target/objectives/results	Performance Indicators	Sources of Verification	Assumptions/Risks
Long-term targets: To sustain economic growth, reduce poverty and promote regional and national integration	- Gross Domestic product (GDP) - Gross Agricultural Product (GAP) - Volume of freight and passenger movement	- Government statistic - Government statistic (MoAIF) - Government Statistic	- Political and economic stability
EC-intervention objectives: To provide a safe and sustainable transport network reducing transport costs and improving access to rural areas	- Passenger fares and freight rates - Traffic counts - Vehicle operating costs - Fatalities and injuries in travel accidents	- Government statistic - MoWHC/RAFU records - MoWHC/RAFU records - Uganda Police statistic	- International and regional regulations and agreements in operation between Uganda and neighbouring countries - Other national sector policies (rural development, social policies etc) implemented efficiently - Other transport modes operate regularly and efficiently (air, railway)
Expected results: - Improved national network - Improved district road network - Road Users conforming to traffic regulations, especially axle loading	- Priority sections in the Kampala-Kabale main road rehabilitated - Maintenance backlog on the national network reduced to two years by 2006 -Percentage of national network in good to fair condition from 60% to 80% by 2006. - Percentage of the districts road network in good to fair condition from 40% to 55% by 2006. - Control of the number of overloaded vehicles increased and overloading reduced from widespread to marginal.	- Acceptance certificate of works - MoWHC/RAFU reports and road conditions surveys - MoWHC/RAFU reports and road conditions surveys - District reports and MoWHC/RAFU surveys - URA statistic and MoWHC/RAFU axle load surveys	- Routine and periodic maintenance on the NCR continue efficiently - Contribution on road maintenance increased and private sector involvement in road works enhanced - Decentralisation and sector policy reforms enforced and implemented at district level - Regulation on axle load control enforced

6.6.1.2. Rural development

Target/objectives/results	Performance Indicators	Sources of Verification	Assumptions/Risks
Long-term targets Directly increasing the ability of the poor to raise incomes and the quality of their life	Overall indicators of income poverty: - Average income/expenditure - Income/expenditure of bottom 20% poorest - incidence, poverty gap	- Annual Household surveys - PRA	- Stable macro-econon environment - Continuous GDP gro - Security globally insı - Enabling socio-econ environment - Decentralisation implemented and effec district and sub-county
EC-intervention objectives: 1. Increase incomes & quality of life of poor through increased productivity and increased share of marketed production. 2. Improve household food security through the market rather than self-sufficiency. 3. Provide gainful employment through secondary benefits of PMA implementation such as commercial farms, agro-processing factories and rural services. 4. Promote sustainable use and management of natural resources by developing a land use and management policy and promotion of environ-mentally friendly technologies. 5. Improving access to rural areas	- % of household production marketed - Average & distribution of income/expenditures - Tax collection increased - % of food production marketed - % of the non-monetary component of the GDP - Percentage of the districts road network in good to fair condition from 40% to 55% by 2006. N.B. Quantification of the existing indicators and/or new ones to be proposed by the PMA secretariat and agreed by the Steering Committee during the FY 2001/2002	- Household, market and yields surveys/data - Reports / data from districts - Reports/data from line Ministries - District reports and MoWHC/RAFU surveys	- Stable macro-econon environment - Continuous GDP gro - Security globally insı - Enabling socio-econo environment - Decentralisation and s policy reforms enforce implemented at district - Decentralisation implemented and effect district and sub-county

Expected results 1. Productivity increased and household food security improved through appropriate technologies and skills (RTD, Adv. Ser., Agric. Educ., Rural finance, Agric. inputs)	- Number of technologies derived from RTD organisations - Adoption rates of technologies At smallholder level - Average yields of food and cash crops	- RTD/Extension progress reports - Ministries/Districts/Sub-Counties data/progress Monitoring & evaluation Reports - Household/service delivery/market prices/ Costs surveys/studies	Roads policy and strategy available at central and district level Political willingness to enforce the land act Environment policy and strategy developed and implemented at central and district level MIS services and policy in place and functioning at central and district level Monitoring and evaluation system in place and functioning at central and district level.
2. Share of marketed production and incomes of the poor increased through better transport, market access, market information, infrastructure, agro-processing, storage, agric. inputs, rural finance	- % of marketed production at smallholder level - Average income/expenditures at smallholders level - Access to market - Average distance from market centre - Transport cost - % and degree of transformed/ processed agric. production - Km. of feeder roads rehabilitated, maintained or open - Employment rates		
3. Gainful employment opportunities increased through the development of commercial farms, agro-processing factories and rural services. (Agric. education, rural finance, infrastructure, agro-processing and marketing)	- Development of commercial farms, factories and service providers		
4. Sustainable use and management of Natural Resources improved through appropriate land use and management policy and through adoption of environmentally friendly technologies.	- Land act enforced - Land policies developed and implemented - Adoption rates of environment friendly technologies N.B. Quantification of the existing indicators and/or new ones to be proposed by the PMA secretariat and agreed by the Steering Committee during FY2001/02		

6.6.2. Macroeconomic support and economic reform

Targets/objectives/results	Performance Indicators	Sources of Verification	Assumptions / Risks
Long-term targets: Sustainable poverty reduction in all the country	- Reduction of the number of Ugandans living below the poverty line in line with the 10% target of 2017 - Reduction of the discrepancies between rural and urban areas in poverty	Poverty Status Report 2003 and PRSP progress report 2004	PEAP remains the political framework in Uganda
EU-intervention objectives: Macroeconomic stability Efficient and equitable use of public funds An enabling environment for rapid and sustainable economic growth and structural transformation Outward oriented trade policies : UPE with net enrolment approaching 100%. including full enrolment of females and those currently disadvantaged by geographical location. : 65% transition rate of primary completers to post primary institutions : Establishment of skills development opportunities : Increases in all sub-sectors of participation of females, disadvantaged groups and children with special needs.	GDP growth rate maintained at 7% Increased share of revenue contribution to the MTEF to 13% of GDP by 2003/04 GOU has agreed with donors on MTEF for 2002/03-2004/05 and has executed 2002/03 budget through first two quarters consistent with the agreed allocations. - Majority of sectors reflect staffing plans and a wage bill in their expenditure plans for 2003/04 – 2005/06. - Majority of sectors incorporate output and outcome measures and targets in 2002/03-2004/05 BFP. - Increase of private investment to a share of GDP in line with sub-Saharan averages by 2005 - GoU to define the roles and responsibilities of the various ministries and agencies involved in policy formulation and implementation. - Public & private sector to organise and implement the MTCS - Harmonised fiscal, monetary and trade policies within the region - Prepare the private sector to face the impact of the global trade regime - Active negotiations started with the EU for EPA or REPA.	IMF/WB and BOU report on the economy BFP & PER - Annual Public expenditure review and sector budget reviews - Annual household survey to measure equitable access to public services - MFPED publishes quarterly budget performance report - BoU economic reviews - Bill passed to Parliament for these definitions - MTEF resources allocated to trade policy - MTCS review process - Outcomes of EAC and/or COMESA negotiations - Workshops, training of the private sector, business development services - Report on the EPA/REPA - Education sector reviews - Interim ESIP review	International donor community continues to provide external support Spending on defence will stay below 2% of GDP GoU remains committed to market oriented economy and privatisation of state owned enterprises GoU remains committed to the peace process and regional integration process and to the WTO process
Reduce child mortality, improve maternal health and combat HIV/AIDS, malaria and other diseases	Reduced IMR from 97 to 68 per 1000 Reduced CMR from 147 to 103 per 1000. Reduce current HIV prevalence b7 25%	Health national surveys Health joint reviews	

Targets/objectives/results	Performance Indicators	Sources of Verification	Assumptions / Risks
Expected results: Improve Service Delivery through cross-cutting reforms	**Result indicators:** By mid-term review 2003 Cabinet approves and publishes the pay strategy consistent with MTEF and improved service delivery; MPS effects salary adjustments aligned with the strategy.	- Bill passed to Parliament for public service reform - MPS publication of pay role statistics	PEAP priorities remains established
Improved quality of education	The current performance indicators set for the education sector focus on pupil/teacher, pupil/textbook, pupil/classroom and percentage of appropriate age range of girls and boys in P7. These targets will evolve over time, since satisfactory review of the implementation of undertakings agreed in education sector, monitors targets and sets new ones when the progress against all undertakings is judged as satisfactory. By the mid-term review this process should have successfully taken place up to April 2003 and be confirmed in October 2003 review.	Education sector Aide Memoire	
Improved quality of health care	Likewise, the process in HSSP reviews is rather similar to what is taking place in education. The current benchmarks monitor DPT3 coverage and the share of qualified workers in health care centres. Satisfactory implementation of undertakings agreed in health sector review in April 2003 and confirmed by October 2003 review.	HSSP review results	

6.6.3. Capacity building for good governance

Targets/objectives/results	Performance Indicators	Sources of Verification	Assumptions/Risks
Long term targets: Improving service delivery and decentralisation, reducing corruption ensuring law and order.	Perception of the level of corruption improved among the population and business community Timely comprehensive reporting on the use of public resources at all levels of public services	AHS, business community surveys (by EAA) Reports by the OAG	Constitutional review confirms the importance of the decentralisation process. GoU improves its commitment towards 0 level of corruption
EU interventions objectives Decentralisation Strong and reliable accountability for decentralised public spending	MOFPED, MOLG and line ministries ensure that mandatory public notices on transfers have been extended to all basic services at facility, district and sub-county level respectively.	MOFPED, MOLG, Line Ministries	The MOLG reinforces its coordination and supervision roles
District and sector plans adequately reflect community priorities, while participatory approaches are coordinated.	Central and local government adopt and implement the harmonised framework and MoLG completes a review of its implementation	MoLG reviews, Community perceptions	
Quality and quantity of service delivery and facilities as identified by the local communities increased.	Service delivered in a satisfactory way. Volume of service delivery increased by 20-30%annually.	Technical, M & E, Evaluation and Stakeholder satisfaction reports (gender differentiated).	Key positions are filled and maintained at district and sub-county level
Rule of Law Increased transparency and accountability of both NGO and government service delivery entities. Increased capacity of the criminal justice systems to process cases effectively and efficiently. Corrupt acts exposed and sanctioned effectively.	NGO policy and code of conduct adopted and OPM and NGOs establish channels of feedback from civil society to monitor service delivery in districts and sub-counties. JLOS makes the sector-wide approach and criminal justice reform programme fully operational. IGG has published its semi-annual reports IGG proposes a stronger follow-up mechanism for its reports and GOU initiates its implementation. IGG reviews implementation Minister of Ethics and Integrity has gazetted and tabled Leadership Code Bill 2000 and Inspectorate of Government 2000 Bill in Parliament. MEI and donors have initiated a process to develop quantitative monitoring indicators to assess progress in fighting corruption. IGG and MEI ensure that monitoring of corruption becomes part of harmonized M&E.	OPM, NGO reports JLOS Institutions, reports, monitoring IGG reviews Official Journal	A better operational environment for GOU-NGO partnership and self-monitoring by NGOs. Increased collaboration among agencies, more effective detection, investigation and prosecution, and higher public awareness. Political willingness exists to sanction high corruption cases

Human Rights Increased protection of human rights. Support more comprehensive monitoring and analysis of the situations. Increased demand for HR, rule of law and good governance through civic education and support to civil society. Support Community Service as an alternative to prison.	Increased reporting to the UHRC (thematically and geographically) UHRC, AIN reports Media, Parliamentary debates, Local level Greater public debate and advocacy campaigns on HR Baseline surveys of public and elected officials (national and local) awareness Increased awareness by Ugandans: - of their Human Rights - of the Constitution - of the roles and responsibilities - of local councils - of Parliament and of MPs Reduced overcrowding in Ugandan prison Less incidence of inhuman & degrading treatment in prisons	UHRC and AIN reports. Published results of the surveys Reports by NGO on the awareness campaigns Statistics on the prison population by MIA.	Government committed to democratisation human rights No increase in political instability or increased arm conflicts Community service is accepted by the public and stakeholders.

6.6.4. Capacity building for non-state actors

Targets/objectives/results	Performance Indicators	Sources of Verification	Assumptions / Risks
Long-term targets: Increased role of NSAs the development process	- No. of national negotiation meetings held with active participation of non-state actors - Amount of media coverage given to non-state actors related to advocacy	- Government reports (e.g. Biennial National Integrity Surveys) - Media surveys (newspapers / radio / local television channels)	Government will accept inputs and criticism from non-state actors
EU-intervention objectives: - To enhance the capacity of NSAs to be involved within focal and / or non-focal sectors and to monitor and be part of the implementation - To enhance the advocacy capacity of non-state actors	- Increased and improved involvement of NSAs in policy dialogue and the sector review and evaluation processes	- Sector review and evaluation reports	Increased knowledge and capacity will be used for actual advancement of NSA interests CSO act as legitimate representatives of grassroots
Expected results: - Improved ability of individual CSOs to represent grassroots interests at district and central level - Increased capacity of private sector to rep. interests of private sector groupings - Enhanced ability of NSA networks to access and deliver appropriate info. to members - Increased negotiation, advocacy and mobilisation capacity of NSAs - Improved capacity of NSAs to ensure involvement in implementation of national service delivery - Enhanced ability of CS to advocate national CS interests at international level related to e.g. trade, poverty, gender	- Qualitative assessments of relevant information available at grassroots level - Qualitative assessments of NSA networks ability to advocate grassroots needs - No. of Government projects implemented by PS or CSOs	- CSO reports (e.g. Deniva, NGO-Forum etc.) - Independent evaluation reports - Government / district reports	EC will be able to identify appropriate entry-points for capacity-building interventions

6.7. Chronogram of activities

9th EDF

	Amounts (million €)	Identification	Appraisal	Financing Decision
Macroeconomic support & Economic reform	**101**			
Macroeconomic support	84	Apr-03	Dec-03	Jun-04
Support to the MTCS	9	Jan-02	June-02	Jan-03
Support Regional integration	4	Jan-02	June-02	Jan-03
Capacity-Building Finance, Planning	4	Feb-02	Oct-02	Jan-03
Infrastructure - Transport	**101**			
Kampala-Kabale Road	81	Dec-01	Dec-02	July-03
Maintenance & Institutional Support	20	Oct-02	May-03	Oct-03
Support to the PMA	40	June-02	Dec-03	Dec-04
Capacity-Building for Good Governance	**17**			
Decentralization	10	June-02	Jan-03	June-03
Rule of law and governance	5	March-02	Nov-02	June-03
Human Rights	2	May-03	Dec-03	June-04
Institutional support to non-state actors	8	June-01	May-02	July-03
Total 9th EDF	**267**			

6.8. Indicative commitments and disbursements

9th EDF (million €)	Primary Commitments Timetable					
	2002	2003	2004	2005	2006	2007	Total
Macroeconomic support & Economic reform		**17**	**84**				**101**
Macroeconomic support			84				84
Support to the MTCS		9					9
Support Regional integration		4					4
Capacity-Building Finance, Planning		4					4
Infrastructure – Transport		**101**					**101**
Kampala-Kabale Road		81					81
Maintenance & Institutional Support		20					20
Support to the PMA			**40**				**40**
Capacity-Building for Good Governance		**15**	**2**				**17**
Decentralization		10					10
Rule of law and governance		5					5
Human Rights			2				2
Institutional support to non-state actors		**8**					**8**
Total 9th EDF		**141**	**126**				**267**

9th EDF (million €)	Disbursement Timetable						
	2002	2003	2004	2005	2006	2007	Total
Macroeconomic support & Economic reform		**3**	**3**	**32**	**33**	**2**	**101**
Macroeconomic support			28	28	28		84
Support to the MTCS		2	2	2	3		9
Support Regional integration		0.5	0.5	1	1	1	4
Capacity-Building Finance, Planning		0.5	0.5	1	1	1	4
Infrastructure – Transport			**21**	**36**	**37**	**7**	**101**
Northern Corridor			20	30	30		80
Maintenance & Institutional Support			5	5	5	5	20
Support to the PMA				**5**	**15**	**20**	**40**
Capacity-Building for Good Governance		**2**	**3**	**5**	**5**	**2**	**17**
Decentralization		2	2	2	2	2	10
Rule of law and governance			1	2	2		5
Human Rights				1	1		2
Institutional support to non-state actors		**0.3**	**1**	**1.7**	**2.5**	**2.5**	**8**
Total 9th EDF		**5.3**	**61**	**78.7**	**90.5**	**31.5**	**267**

ANNEXES

ANNEX I - INDICATIVE WORK PROGRAMME (IWP) 2002/2007

1. PRINCIPLES AND OBJECTIVES FOR CO-OPERATION

The IWP for the 9th EDF, drafted in compliance with Article 4 of Annex 4 of the Cotonou Agreement , identifies, to the extent possible, for the full period covered, projects and programmes to be implemented in the focal and non-focal areas/sectors as described in the CSP. The future support will speed up the evolution towards sector and budget support. The increase of such support will be linked to progress made in the definition of sectoral policies, their implementation and review processes. It indicates which resources and instruments will be used for the implementation of the CSP. However, no detailed estimates for the Commission Budget lines funding and the Investment Facility have been included, for the simple reason that their timing, magnitude and targeting is considered to be too unpredictable at the moment of writing.

A certain "over-programming" has been assured while programming the envisaged CSP interventions in order to have a sufficient pipeline to remedy unexpected problems or delays in implementation. It also provides 3% of the A-envelope for the direct support of non-state actors in addition to support to these actors that will take place in all sectors identified.

The IWP provides the benchmark for measuring the progress achieved in implementation during annual country stakeholder reviews. The findings of these reviews can lead to a modification of the IWP and the resources envelopes. To enable a realistic performance assessment, performance indicators have been identified in line with the already existing monitoring and evaluation mechanisms developed in agreement between GoU and the donors (PRSP, PRSC, SDPs). In order to prepare the review process foreseen in the Cotonou Partnership Agreement, the NAO has invited representatives from state and non-state actors to a consultation. They have contribute to the programming process by identifying more precisely how the EC response strategy, at that time provisional, would be implemented in this IWP.

2 - MACROECONOMIC SUPPORT AND ECONOMIC REFORM

2.1 - MACROECONOMIC SUPPORT

Macroeconomic support in the form of general budget support is fully coherent with the Cotonou Agreement. In Uganda, the Poverty Eradication Action Plan (PEAP)/Poverty Reduction Strategy Paper (PRSP) has been fully endorsed by the BWI and has a clear emphasis on poverty reduction within an effective public expenditure framework. GoU, thanks to the Medium Term Expenditure Framework (MTEF), targets quite efficiently budget allocations to activities and programmes that will contribute most to the goals of the PEAP. The process is largely participatory and embedded in the decentralisation and is supported by regular reviews that involve all the stakeholders from NGOs to donors. The participatory process used to develop the PEAP considerably broadened country ownership of the reforms and brought in a large number of stakeholders who will support their implementation. In addition, the mechanism and monitoring process of the Poverty Action Fund (PAF) ensures even further that the funds earmarked for poverty eradication will never be fungible and cannot be diverted away from priority spending lines, even if GoU was to experience dramatic revenue shortfall.

GoU's is committed to sound implementation of public service delivery, an undertaking that will trigger the release of global budget support. These commitments are part of the conditions and benchmarks of the Poverty Reduction Strategy Credit (PRSC) approved by the WB to support the PEAP/PRSP, a coherent framework to assess GoU's undertakings. It provides support towards policy and institutional reform measures with the estimated highest poverty impact.

Given the positive impact of the Commission contribution to macroeconomic support, future participation of this nature would be in-line with the current contribution of about 24.5 million €

per fiscal year that comes in addition to the specific support to the social sectors. Under the 9th EDF the social sectors will be catered for through direct budget support. To fully cover the 9th EDF time span and wider poverty reduction scope, 85.5 million € would be required to maintain such support up to 2006.

2.2 - ECONOMIC REFORMS

A total of 15.5 million € from the A-allocations of the 9th EDF is programmed for these activities.

2.2.1 - CAPACITY BUILDING IN FINANCE AND PLANNING

Ministry of Finance, Planning and Economic Development (MFPED) is a crucial stakeholder in the implementation of GoU's reform process. Moreover, its role is also central in supporting improvement of tax policy and administration. Donors, including the EC, are working with MFPED to strengthen its capacity to increase GoU's revenue. In addition to long-term expertise needed for the support and capacity building of the Tax Policy Department of the MFPED, this support would be co-ordinated among donors on the basis of a long-term programme for the sector that is going to be developed in FY 2001/02. From 2003 onwards, the funding of this component would come from the 9th EDF.

2.2.2 - REGIONAL INTEGRATION

Support to improve the capacity of the public sector to address globalisation and regional integration challenges is another indispensable component for support. In order to fully prepare Uganda for the EAC/COMESA regional preparatory work and further on the EPA negotiations with EU, additional support will be required. This will strengthen Uganda's capacity to actively contribute to the forthcoming WTO negotiations.

During the preparatory period leading up to the conclusion of new WTO compatible trading arrangements between the EU and the ACP countries (December 2007) capacity building shall be facilitated in the public and the private sectors, including measures to enhance competitiveness, strengthen regional organisation and support regional trade integration initiatives. A programme for the support to the process is under identification and should be ready by early 2003. Its implementation is likely be in the form of a GoU (sector) programme that will be co-funded by donors under the MTCS framework. The Commission, given the ACP/EU undertaking, would lead the process and contribute to it with a foreseeable amount of 3.5 million € of the 9th EDF and a substantial contribution from all-ACP funding where possible.

2.2.3 -SUPPORT TO THE MTCS

Private sector organisations lack in the majority of cases the capacity to deliver services to their members and therefore find it very difficult to ensure adequate representation. Increase capacity and responsiveness of business associations will contribute to the creation of an enabling environment that will better suit their needs. It should primarily ensure a better linkage between the all-ACP mechanisms and the specific problems identified at the national level with a view to facilitating access of SMEs to these mechanisms. An indicative amount of 3.5 million € will be allocated to ensure the development of the private sector. A specific work programme for these priorities will be drawn on the basis of a needs assessment consultancy facilitated by the Commission in the framework of the MTCS. The way forward will be based on improved and strengthened co-ordination among the stakeholders.

2.3 - PERFORMANCE INDICATORS

To assess the success of GoU's policies and the relevance of global budget support, the European Commission has adopted a wider range of benchmarks including good governance (corruption) and Uganda's commitment to the Lusaka peace process. The performance indicators negotiated between the WB (and donors) and GoU for the PRSC are used in the existing monitoring and evaluation process, including those for the social sectors.

Furthermore Uganda will benefit from direct budget support under the assumptions that the government:

- Continues to implement its economic reform programme;
- Continues its efforts of improving standards of public finance management;
- Respects its targets and monitors outcome and result indicators in poverty reduction related areas;
- Reinforces its efforts to create a conducive environment for private sector initiative;
- Intends to develop the Ugandan economy into a full participant in a global, liberalised, business environment;
- Is committed to improve the quality of education;
- Is committed to improve the quality of heath care.

3 - TRANSPORT

Within the global support to the transport sector, emphasis should be placed primarily on Uganda's road network, this has been identified by all stakeholders as an important obstacle to both social sector and private sector development. The specific objectives on which the 9th EDF programmes will concentrate are: 1) improve trade and 2) promote regional and sub regional integration.

In order to achieve these objectives the Government has put in place the 10 Years Road Sector Development Programme (96/97-05/06) which sets out a comprehensive approach of key road investment combined with major policy and institutional reforms. The programme covers road maintenance and rehabilitation, network improvement and road administration reforms and reflect investment requirements and economic priorities within the country macro-economic framework.

3.1 - INSTITUTIONAL SUPPORT

Institutional support is foreseen by means of capacity building to the Ministry of Works (MoWHC) in the process of adaptation to its new role after the establishment of the Road Agency. The role of the Ministry is being redefined towards regulatory and monitoring functions but the actual implementation of this programme is facing serious constraints due to the lack of capacity of the Ministry's staff. This comes when policy formulation is vital for transport sector and a considerable number of policy studies are on hold due to the inability of the Ministry to deal with strategic issues. Capacity building shall be seen not only in the light of advisory function to the Minister but also as a means to provide capacity building and training to MoWHC's staff. The amount set aside is around 5million €.

3.2 - MAINTENANCE

Within this component a substantial part of the funding will be directed to continue support to national road maintenance and axle load control. GoU is strongly committed to finance maintenance but will probably need further support to eliminate the backlog in periodic maintenance. A decision will be taken whether to continue with the project approach or if there is the possibility of target support to the RAFU budget, once the management of road maintenance is definitely transferred to RAFU. Enforcement of axle load control is seen as a condition for disbursement of donors' funds, and it is therefore proposed to continue support either for the construction of weighing bridge stations and/or for the strengthening of management capacity to enforce the law. The amount set aside for this component is 15 million €.

3.3 - INTEGRATION OF THE AGRICULTURAL HIGH POTENTIAL AREAS OF SOUTH WEST UGANDA IN THE NATIONAL ROAD NETWORK.

The districts of Kabale, Ntungamo, Mbarara, Rakai and Masaka in South West Uganda are the most important agricultural districts of the country. Population density is high, and the transport infrastructure serving this part of the country leaves much to be desired. Like in most of the country, the district roads are in poor state of repair and the main roads need urgent intervention to prevent a dramatic deterioration in the short term. Interventions are proposed at national and district level.

Intervention at national level

The central road serving the above mentioned five districts is the 385 km national road from Kampala to Kabale. This road has been brought to bituminous standard over its entire length during the eighties with EDF part financing. Some sections have had major maintenance in 1999/2000 funded from STABEX counterpart funds. The condition of the road has been examined in detail during the same period and detailed engineering recommendations have been made to extend the technical life of the road with another 15 years. The optimal solution in this respect is priced at approximately 135 million €, of which priority sections can be identified and rehabilitated for an amount not exceeding 80 million € in 9th EDF funds.

Additional financing can possibly be mobilised from regional funds, as the road in question also carries a substantial quantity of international traffic to and from the Great Lakes Countries. Already 14 million € have been earmarked from the 7th and 8th RIP, but most of this money will be required to upgrade the Katuna-Kabale road section.

Intervention at district level

Support to the upgrading of the district roads providing access from the productive areas to the main road will be provided through the 9th EDF interventions in favour of rural development.

3.4 - PERFORMANCE INDICATORS

The EC programme in support to this sector will be conditioned by the outcome of the 2002 Road Conference. This Conference will review the Ten Years RSDP and agreed on the policy for the sector. It is assumed that an autonomous Roads Agency will be established. The EC will make capacity building resources available for the new body. The government will reduce its periodic maintenance backlog and will channel sufficient resources to the Ministry and local governments.

4 -RURAL DEVELOPMENT - SUPPORT TO THE PLAN FOR MODERNISATION OF AGRICULTURE (PMA)

As 85% of Ugandan live in rural areas and earn their living from agriculture, increasing agricultural growth rates, diversifying agricultural production and expanding non-farm employment in rural areas are essential for sustainable poverty reduction and economic growth. The PMA provides the necessary integrated framework to build the enabling environment that will ensure sustainable economic growth food by the private sector. Moreover, developing the agriculture sector is the most efficient way to ensure an increasingly equitable distribution of growth and to decrease the poverty gap between urban and rural areas.

The PMA describes the types of interventions required to promote rural development, defines the responsibilities of the public sector, private sector and civil society and outlines the participatory process through which the scope and the kind of interventions will be decided. The whole plan encompasses a large number of core activities under the responsibility of MFPED and several line ministries. A steering committee comprising representatives of local and central government, donors and rural associations supervise the implementation of the PMA. Several components of the plan identified as core priorities for poverty eradication are financed through the PAF: implementation of the Land Acts, feeder roads and extension services.

In order to improve the overall and co-ordinated assistance of donors towards the implementation of the PMA, an overarching view of the process is paramount. The financing of interventions must be channelled according to the priorities of the PMA and on the basis of the progress made in the development of sectoral policies, implementation mechanisms and review and evaluation procedures. Up to 50 million € of EC support will be channelled through the PAF, or through basket funding over the next 3 FY years (2001 - 2003). Funds from the 9th EDF will further continue this support with an A-envelope contribution of 40 million € for the following 3 years (2004- 2006).

The EC, together with the WB and other donors, will support the development of policies, mechanisms and reviews, together with capacity building of the stakeholders in order to ensure adequate absorptive capacity through efficient, transparent and reliable accountability.

5 - CAPACITY BUILDING IN GOOD GOVERNANCE, HUMAN RIGHTS AND RULE OF LAW

Consultation with the private sector and the civil society have clearly indicated that the most efficient way to improve the responsiveness of the authorities in this cross-cutting theme is to develop the capacity of the NGOs and CSOs. The more these organisations are able to be heard and participate in the implementation and monitoring of development policies, the better the incentive for improved accountability and efficiency.

In addition to ongoing support to good governance, human rights and the rule of law, the Commission will, alongside other development partners, support and monitor progress in human rights and democracy. This is a condition for budget release under the PRSC.

5.1 - DECENTRALISATION

Most sector programmes embody a strong decentralisation component. Successful implementation will require improving the capacity of local governments in effective planning, management, and implementation of related policies and programmes. The support identified in the framework of the 9th EDF will primarily be through capacity building at district and lower levels through budget support. Such support will increase the resources available to existing GoU programmes such as the Local Government Development Programme (LGDP) and the Economic and Financial Management Programme (EFMP II) strategies and objectives. Under the 9th EDF, an A-envelope contribution of 10 million € is foreseen.

The decentralisation process will be gradually fully taken on board in the current EC programmes focusing on specific districts (MPP), in line with the policies adopted by GoU.

5.2 -RULE OF LAW AND GOVERNANCE

A specific EC contribution to the recently initiated SWAP in the Justice, Law and Order sector is envisaged, depending of the progress of this sector, as assessed at the 6 monthly joint reviews. The funding of short or long term TA to this sector to increase capacity (commercial and criminal justice reforms, support to key institutions involved in the fight against corruption) will also be contemplated. This sub-sector will be eligible to a 5 million € contribution of sectoral budget support from the 9th EDF.

5.3 - HUMAN RIGHTS

An additional contribution of 2 million € from the 9th EDF to the common DANIDA/EC Human Rights Programme, which entails support to both public and civil society actors active in the field of the promotion and defence of human rights will be considered, on the basis of the evaluation results of this programme.

6 - INSTITUTIONAL SUPPORT TO NON-STATE ACTORS

Resources from 9th EDF to go directly to non-state actors aim at increasing their capacity to play an active role in the development process, with particular focus on their advocacy role and capacity to act as service deliverers. Although non-state actors will be involved in the focal and non-focal sectors identified in the response strategy, direct support will be given to them as well. This is based on the holistic view that supporting the broad-based advocacy-role of non-state actors will create a positive influence on the development process.

In order to have an analytical foundation on which to base decisions for support, the European Commission and the NAO will carry out a detailed analysis, which is intended to map out the existing capacity of non-state actors related to advocacy and service delivery. Based on this, entry-points and modalities for support from the EC will be identified. In addition, studies related specifically to the role of non-state actors within the focal sectors will be carried out (e.g. the role of the private sector from an advocacy perspective in economic reform).

ANNEX 2– ANALYSIS OF NATIONAL POLICY:

ANNEX 2.1 - MACROECONOMIC SUPPORT AND ECONOMIC REFORM

THE POVERTY ERADICATION ACTION PLAN

To reduce the percentage of the population that lives under the poverty line the PEAP requires the halving of social indicators such as infant and maternal mortality, illiteracy, particularly for girls, fertility, women employment, patient/medical doctors ratio and rural-urban discrepancies. It aims at substantial increases in life expectancy, 100% primary school net enrolment, 75% of the population having access to safe water, better access to land and increased household incomes as well as national security for persons and property. Therefore the PEAP puts a major focus on governance and security and also on actions that directly improve the quality of life of the poor. Against this background the Plan has been structured around four goals.

(I) CREATING AN ENABLING ENVIRONMENT FOR ECONOMIC GROWTH AND STRUCTURAL TRANSFORMATION

As emphasised above, continued high economic growth in Uganda requires a *framework within which the private sector can expand.* Actions listed under this pillar aim to provide that framework. Specifically, the Government intends to address four key elements: (i) *macroeconomic stability,* without which economic growth will not be sustainable; (iii) the *removal of constraints on private sector competitiveness.* Government's "Medium-term Competitive Strategy for the Private Sector (2000-2004)" guides action in this area[1]; and (iii) *equitable and efficient collection and use of public resources,* involving further strengthening of budget processes, a review of local taxation to make it more progressive, and gradual introduction of equalization grants to make the delivery of public services more balanced across the country.

(II) ENSURING GOOD GOVERNANCE AND SECURITY

Good governance and security are essential for making progress in the first three pillars. Actions detailed under the fourth pillar focus on *improving public service delivery and decentralization*; *reducing corruption*; *ensuring law and order and security*; and *providing disaster management.* To improve the service delivery on the ground, Government has decentralised the delivery of health, education, water and agricultural extension services to local governments. The key challenge facing this effort is improving the capacities of local governments for effective planning, management, and implementation of related policies and programmes. The Government plans to address these concerns by the introduction of results-oriented management, pay reform and by strengthening bottom-up accountability. Further, to improve law and order and security, the Government plans to launch a criminal justice sector reform; seek resolutions to the remaining internal and regional conflicts; and develop a national strategy to improve the country's ability to respond to disasters (such as drought, floods and conflict).

(III) DIRECTLY INCREASING THE ABILITY OF THE POOR TO RAISE THEIR INCOMES

As most Ugandans live in rural areas and earn their living from agriculture, increasing agricultural growth rates, diversifying agricultural production and expanding non-farm employment in rural areas are essential for poverty reduction. The first pillar therefore focuses on *actions to promote rural development.* As detailed in the PEAP/PRSP, GoU's PMA provides the strategic and operational framework for environmentally sustainable rural development and agricultural transformation from subsistence to commercial agriculture. Research on land shows considerable

[1] Uganda is not yet fully integrated into the multilateral trading system. Further work to harmonize the country's trade policy and regulatory framework with WTO agreements is needed. To facilitate that work, the Government has developed an integrated framework for trade related technical assistance to coordinate donor assistance.

inequality, often resulting from non-economical factors more than from the operation of the market. The Land Act is designed to strengthen the land rights of the poor.

Recent studies in Uganda have suggested that there is a large unmet demand for finance. One study[2] found that only 6% of the demand was met. The Government is establishing a new regulatory and supervisory structure for the micro-finance industry that has the potential to fill the gaps in the provision of small-scale loans and other financial services for poor people. The Government has withdrawn from the direct provision of capital for credit but will still provide support for capacity building.

Feeder roads remain a central priority as in the 1997 PEAP, since when maintenance expenditure has tripled. Increasing returns to productive assets by improving access to markets under the PMA is a high priority.

Publicly supported research is co-ordinated by NARO. Research is to be decentralised, and stakeholders are to be involved. The potential benefits of publicly provided advisory services vastly outweigh their costs. The strategy is currently under review.

(IV) DIRECTLY INCREASING THE QUALITY OF LIFE OF THE POOR

As the participatory poverty work indicates, public services, in particular *primary education, health care* and *potable water and sanitation,* have a direct impact on the quality of life of the poor. Consequently, their delivery is a central element of the PEAP/PRSP. In the education sector, the Government plans to continue emphasizing the delivery of UPE by providing the necessary infrastructure and teachers, while also developing a strategy for post-primary education. Government's HSSP will continue guiding the delivery of public health care.

MACROECONOMIC OBJECTIVES

- The macroeconomic objectives for the 2000/2001-2001/2002 period are formulated as follows:
- Real GDP growth rates of 7% per annum;
- Maintaining inflation at 5% per annum or less;
- Foreign reserves to cover five months of imports;
- Competitive exchange rate.

The programme formulated in the PEAP also includes policies with respect to institutional reform (financial sector reform, commercial justice reform), and improvement of infrastructure for private sector development (Electricity; Communications, and Transport). In addition good governance and security including among others, democracy and decentralisation are areas of focus. This requires achieving transparent and efficient public expenditure and the delivery of public services.

- In this context PEAP defines policies in the fields of
- Management reform;
- Pay reform;
- Attracting high-quality staff to work in remote areas;
- Improving co-ordination between the management of human resources in donors' operations and the public service;
- Improving bottom-up accountability.

[2] Market needs assessment for rural financial services to households and agricultural sub sectors, COWI, draft final report, January 2000

DEVELOPMENT OF THE PRIVATE SECTOR – THE MTCS

Most of the competitiveness building strategy will be based on a cluster approach spearheaded by the Private Sector Foundation (PSF)[3] and Uganda Investment Authority (UIA) and will focus on constraints at the sector/sub-sector level. MFPED considers this approach as an opportunity for linking small operators (the informal sector) to large firms in order to promote technology transfer and innovation for improved productivity in Micro and Small Enterprises (MSE).

For the moment, GoU recognises that firms cannot become competitive because of constraints that the government is committed to remove with the outcome of the MTCS. GoU, on the basis of the 1998 surveys of domestic and foreign investors has identified eight priorities areas:

- Reforms in infrastructure provisions;
- Strengthening the financial sector and improving access;
- Commercial legal sector reforms;
- Institutional reforms that include dealing with corruption, reforms in public procurement, simplifying administrative procedures and improving tax administration;
- Removing export sector specific impediments;
- Improving the business environment for SME;
- Globalisation / regional issues; and
- Human capital development, health and environmental issues.

GoU recognises that the real challenge is to translate the MTCS' intentions into action. A strong commitment is necessary both at political and implementation levels. Strong political commitment is indeed necessary to overcome vested interest, given that a number of the proposed actions relate to institutional reforms.

GLOBALISATION & REGIONAL INTEGRATION

COMESA has primarily an economic and trade mandate, but also has a considerable political dimension. The COMESA Free Trade Area (FTA) entered into force on 31 October 2000, with 9[4] of the 20 member countries agreeing to the immediate elimination of tariff barriers for COMESA members. Uganda is not taking part fully in the COMESA FTA and has only reached an 80% tariff reduction[5]. However, the next step to create a large market is the establishment of a common external tariff together with enhancing investment. To be fully integrated, COMESA countries have also to consider free movement of all factors of production (including labour). Moreover, Tanzania, one of Uganda's more important and stable neighbours, recently withdrew from COMESA.

Uganda is also a member of the East African Community (EAC), which groups Uganda, Tanzania and Kenya; the EAC treaty entered into force in July 2000 and since then both Rwanda and Burundi have applied to join this regional agreement. The EAC include provisions to develop a regime to liberalise trade with a view to forming a customs union (CU) within 4 years and later a common market (CM). Faster economic integration is one of the objectives of the EAC. However, again there does not yet appear to be a genuine roadmap towards implementation of this commitment.

[3] An APEX organisation of the Private sector organisations and associations, including para-statal institutions.

[4] Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe

[5] Uganda, Comoros and Eritra have reached an 80% tariff reduction.

The new ACP-EU partnership agreement includes cooperation in the field of trade. Trade cooperation is based on regional integration initiatives in developing countries. This process will ultimately negotiate Economic Partnership Agreements (EPAs) with the Community to facilitate their integration into the world economy. Development cooperation will support the process.

The Community is well placed to include a trade dimension in its development policy, but to succeed, the combination of trade and aid must be carried out at community levels by the Member States and the European Commission.

ANNEX 2.2 – THE PLAN FOR THE MODERNISATION OF AGRICULTURE (PMA)

Agriculture is the predominant economic activity in Uganda, involving 3 million rural households cultivating 30 % of the total arable land with an average size of Land Holding of 2.2 Ha. Agriculture accounts for approximately 45 % of the country's GDP and more than 85 % of its exports. Approximately 85% of Ugandans live in rural areas. Most Ugandans are self-employed, mainly in agriculture, so any plan to develop the economy and reduce poverty will have to be carried out in the agricultural sector and through agricultural sector growth.

To address this challenge the GoU has developed a holistic, strategic framework through multi-sectoral interventions enabling the people to improve their livelihoods in a sustainable manner: the PMA. It is an outcome-focused set of principles upon which sectoral and inter-sectoral policies and investment plans are being developed at both the central and local Government levels. Its main focus is poverty eradication through increased agricultural productivity, improved natural resource based livelihoods of the poor and increased protection of the environment.

The PMA ties into two goals of PEAP: increasing the ability of the poor to raise their income, and improve their quality of life. GoU is committed to transform agriculture from a predominantly subsistence sector to a commercially oriented one. Targeted beneficiaries for public sector investment programmes will be the subsistence farmers. Commercial farmers will benefit from an enabling environment. Poor who do not have any assets will be catered for through special programmes or safety nets outside the PMA process.

The multi-sectoral nature of the PMA goes beyond the mandate of the Ministry of Agriculture and sectoral programmes and involves all of government in vertical and horizontally linked integrated analysis, planning and actions. The implications of this new approach are both the critical linkage to decentralisation and the need for a non-sectoral planning and financing forum like the newly created PMA Forum, PMA Steering Committee and PMA Secretariat. The new role of the Ministry of Agriculture will be comparatively smaller as supporting agriculture may not be mainly in the 'agricultural sector' but addressing more the factors of production than the production itself.

The PMA is a strategic and operational framework for effectively transforming the livelihoods of the majority of the subsistence farmers through reforming institutional and organisational structures and changing the types and methods of production and service delivery in the agricultural sector. The PMA will be implemented through a decentralised planning process which will identify the key constrains at the local level.

GoU will concentrate on the provision of services that are public goods and promote the private sector as the engine for agricultural transformation. The PMA identifies seven core areas for public action in agriculture which are a) Research and technology, b) Advisory services, c) Infrastructure (including feeder roads), d) Access to rural finance, e) Access to market information, markets and processing f) Sustainable utilisation and management of natural resources and g) Agricultural Education.

IMPLEMENTATION OF PMA

The operationnalisation of the PMA will introduce new Non-Sectoral Conditional Grants (NSCGs) for sub-counties to empower the grassroots financially and thereby enhance a two way planning and budgeting process. A PMA Planning and Financing Forum (PMA Forum) with an executive Steering Committee (PMA SC) will provide guidance to the entire process in a participatory manner. The PMA will support capacity building of local Government to plan in a PMA compatible manner. Sector ministries will also be supported to strengthen their capacity for strategic planning, policy formulation, resource constrained budgeting, provision of technical back up to local Government and private sector institutions and for monitoring the PMA. Donors are represented in the PMA SC by four : WB, DFID, DANIDA and EC, and are encouraged to support the PMA through a "basket" funding support mechanism which will be disbursed under the guidance of the PMA SC.

In the context of the decentralisation process, the implementation of PMA activities will fall under the overall responsibility of districts. To avail this, a new non-sectoral conditional grant has been created to ensure the revitalisation of agriculture and other poverty reduction programmes. This grant will be channelled, upon completion of certain conditions, at sub-county and district level for local governments to enhance bottom-up planning and budgeting. Monitoring and supervision facilitation at district level will be provided according to PAF requirements.

GoU considers that this structural reform and improved co-ordination amongst donors should "create a suitable environment for a shift from project funding to programme funding, multi-donor funding of programmes and gradual evolution towards a 'basket' funding mechanism". It hopes "that in the medium to long term, increased transparency and accountability in the implementation of publicly funded programmes will pave the way for increased funding through budget support".

At district level there will be a planning and financing forum that will ensure that the different line ministries have policies that are in line with the district policy.

Line Ministries are supposed to develop a policy, while district authorities refine these and take on board local concerns. Very few districts have formulated their budget and medium term framework taking into account priorities from lower levels. Line ministries will also monitor implementation and carry out evaluations, including impact assessment. It is expected that in FY 2001/02 resources under PAF will also be used to activate PMA non-sectoral conditional grants to be provided to sub-counties. Sub-counties and the private sector will implement the PMA.

ANNEX 2.3 – TRANSPORT

1. UGANDA TRANSPORT INFRASTRUCTURE OVERVIEW

Uganda is served by road, rail, air and inland water transport. The basic infrastructure facilities for each mode are as follows:

Road infrastructure - This comprises a network of classified (main) roads of just under 9,500 km, a district ("feeder") road network of just over 24,300 km and a network of urban roads of 1,376 km. In addition there are community access roads, which have a total length approximately equal to the combined length of the other three networks.

Road transport is the dominant mode of transport in terms of scale of infrastructure and the volume of freight and passenger movement (in both cases as excess of 80% is carried by road). The 9,500 km of classified roads carries 80% of the total road traffic volume.

The 1999 passenger and freight traffic on roads was as below:

	INTERNATIONAL	TRANSIT	DOMESTIC	TOTAL
PASSENGER TRAFFIC (million passenger – km)	100	-	12,253	12,353
Freight Traffic (million tonne – km)	173	65	2,673	2,911

Just over 23% of the classified network and 43% of the urban network are paved. The district road network is unpaved. As a result of considerable effort during the 1990s the rehabilitation of the classified network has made significant progress and its condition is reasonable in relation to the relatively low levels of traffic, which it carries. By comparison, fewer resources have been devoted to the rehabilitation and maintenance of the district and urban road networks, with the result that their condition is worse than that of the classified network.

Condition of the road network is summarised in the following table:

NETWORK	GOOD	FAIR	POOR	VERY POOR	TOTAL
CLASSFIED ROADS	18%	56%	20%	5%	100%
DISTRICT ROADS	10%	39%	26%	26%	100%
KAMPALA ROADS	24%	16%	45%	16%	100%
URBAN ROADS	5%	37%	54%	3%	100%
TOTAL	12%	43%	27%	19%	100%

No detailed data exists for the community roads, but the proportion of the poor to very poor condition is likely to be between 80-90%.

The level of road utilisation of the road network, expressed in Vehicle Kilometres Travelled (million vehicle km/year) is given below:

NETWORK	PAVED	GRAVEL	EARTH	TOTAL	%DISTRIBUTION	
National Roads	1,270	448		1,718	56.9%	56.9%
District Roads		103	151	253	8.4%	8.4%
Urban Roads	116	43	22	181	6.0%	
Kampala Roads	666	174	0	840	27.8%	33.8%
Community Roads			27	27	0.9%	0.9%

Rail and Marine Transport Infrastructure - The national railway operator is Uganda Railway Corporation, which was established in 1977 to take over the operation of the parts of the former East African Railway network within Uganda. The Ugandan railway network totals 1,244 km and comprises the following lines:

The central line between Kampala and Malaba (Kenya border). This 251 km line forms part of the international northern corridor between Kampala and Mombasa.

Spur lines to Jinja and Port Bell ferry terminals on Lake Victoria (18 km). These form links with the international Lake Victoria ferry routes between Kisumu (Kenya) and Port Bell and between Mwanza (Tanzania), Port Bell and, occasionally, Jinja.

The western line between Kampala and Kasese (333 km).

The northern line between Tororo and Pakwach (502).

The Busoga loop line - Jinja-Kamuli-Busembatya (140 km)

Of these only the central Kampala-Malaba line and the spur lines to the international ferry terminals on Lake Victoria - 21 percent of the network - remain officially operational. In other words, the only lines remaining in operation are those forming part of the international Northern corridor between Kampala and Mombasa and central corridor between Kampala Mwanza and Dar es Salaam.

The international marine infrastructure facilities comprise the refurbished facilities at Port Bell, the jetty at Jinja and three wagon ferries.

Rail traffic is now all goods traffic and consists almost entirely of international traffic. Total goods traffic carried by URC fluctuated between 400,000 and 800,000 tonnes in the 1990s and in 1999 it was around 750,000 tonnes. The poor quality of the service and inadequate capacity on offer rather than lack of demand was the reason for the erratic performance.

The URC's profit/loss before tax over the last three years is given below:

	1997 (USH 000)	1998 (USH 000)	1999 (USH 000)
Earnings	15,443,071	19,352,132	26,902,205
Expenditure	(20,306,689)	(17,891,622)	(21,474,859)
Profit/loss before depreciation	(4,869,618)	1,460,510	5,427,346
Other expenses	(14,258,988)	(6,787,236)	(7,397,236)
Net profit/loss before tax	(19,122,606)	(5,326,726)	(1,969,890)

URC's international goods traffic is very unbalanced, with imports making up 75-80% of the total. The loss of coffee exports to road transport has been a contributory but not the only factor in the declining share of rail exports in total traffic.

Over 90% of Uganda's import and exports move via the Northern Corridor and two thirds of these move by road. All Ugandan traffic through the central corridor moves via rail and lake ferry.

Inland Water Traffic - In addition to its international wagon ferry services between Port Bell and Kisumu and Mwanza Government operates or have until recently operated, short-distance lake and river crossings at Bukakata on the Lake Victoria, Masindi Port and Paraa on the Victoria Nile, Wanseko on Lake Albert, and Laropi on the Albert Nile. These services are operated by pontoons of between 30 and 120 tonnes. MoWHC is responsible for the crossings at Bukakata, Masindi Port, Wansekoand Laropi, and the Wildlife Department operates the Paraa ferry.

Air Transport Infrastructure - Uganda has only one truly international airport: Entebbe International Airport. The airport comprises a three runway complex with a main international runway of 3658 metres which has sufficient length, width and strength to handle all aircraft types and access to almost all international destinations.

The terminal building has an estimated annual capacity of 5 million passengers and will therefore provide sufficient capacity to handle passenger demand well into the twenty first century. The airport is in good condition of repair and is one of the best international airports in East Africa.

In addition to Entebbe International Airport Uganda has five upcountry airports, which were designated as international entry points in September 1994.

Air transport has been the fastest growing part of the transport sector, although it has to be admitted that this has been from a low base in the late 1980s. By 1998 passenger movements through Entebbe International Airport has reached almost 450,000 and airfreight movements amounted to just over 30,000 tonnes. To put things into perspective, passenger movements only reached the 1970 level in 1996. Domestic air traffic is still well below the 1970 level and only makes up seven percent of passenger traffic through Entebbe.

2. TRANSPORT POLICY AND STRATEGY

In order to update its overall transport strategy in 1998 GoU commissioned a Transport Sector Strategy Study, which was completed in October 1999. MoWHC has now established a task force to look into the study and to prepare a Government document to be approved by Parliament. GoU has also started the process of establishing a long-term multi-modal transport master plan to guide the rational and complementary development of all the transport modes.

During the 1990s the overall objective of the transport sector policy was to create an efficient transport sector able to play its part in assisting in the acceleration of economic growth, the eradication of poverty and the strengthening of national integration.

In its efforts to meet these overall objectives GoU has attempted to follow these basic principles:

- active participation in the provision of technically sound, economically justifiable and financially sustainable transport infrastructure with priority being given to the preservation and maintenance of existing infrastructure;
- non-participation directly in the provision of transport services except in cases of perceived strategic necessity;
- promotion of private sector participation in the implementation of infrastructure works and complementary government initiatives to enhance the capacity of the domestic contracting and consulting industry; and;
- with regard to the provision of transport services, GoU has seen its role as defining policy guidelines and providing a regulatory framework designed to facilitate the efficient provision of transport services by private sector providers.

Within the context of the above policy framework, the transport sector strategy adopted by GoU during the 1990s has attempted to follow some of the recommendations of the WB's 1991 Transport Sector Memorandum in incorporating the following policy elements:

- improved methods of investment planning and prioritisation for each of the transport modes;
- maximising private sector participation in transport activities;
- an appropriately balanced programme of road rehabilitation and maintenance;
- the adoption of a coherent strategy for the development of air transport;
- the adoption of a commercial strategy for the Uganda Railway Corporation (URC); and
- the encouragement of the development of the local contracting industry;

The same policy objectives are directing the Transport Sector Investment and Recurrent Expenditure Programme (1998 - 2002), which covers road, rail and aviation sub-sectors and constitutes the framework for the Government planning in the transport sector.

2.1. ROAD SUB-SECTOR POLICY AND STRATEGY

GoU has put in place (1996) the Ten Years Road Sector Development Programme (96/97 - 05/06) whose objective is to contribute to Uganda's economic development through the provision of a sustainable, safe and efficient road network.

The RSDP sets out a comprehensive approach of key road investment combined with major policy and institutional reforms. Estimated to cost USD 1.5 billion, the programme covers road maintenance and rehabilitation, network improvement and road administration reforms and reflects investment requirements and economic priorities within the country's macro-economic framework.

GoU has adhered to the maintenance objectives of the programme with the ultimate aim of managing roads as a business concern and having maintenance works executed by the private sector. With the launching of the RSDP, GoU committed itself to increase expenditures on road maintenance annually. Its strategy is to increase road maintenance contribution by USD 4 million annually, to reach the level of USD 40 million by 2001/02, when annual maintenance expenditure requirements are expected to level off at about USD 40 million. The assumption was that at this point GoU was expected to fully fund routine maintenance of the entire main road network and to seek donor assistance only for periodic maintenance.

The budget framework paper (BFP), is structured such that, in case of a reduction of national revenue, GoU protects road maintenance expenditures.

For the efficient administration of the road network, an autonomous Road Agency Authority will also be established by 2003, and as an interim measure the Road Agency Formation Unit (RAFU) is in place. In addition, within the WB funded Road Institutional Support Technical Assistance Project, a number of studies have been launched where issues such as road management and financing, road safety, environmental policies, and the setting up of the Road Agency are addressed. The results of the studies will direct GoU to better define Uganda's strategy in the road sector.

With regard to the legal and regulatory framework, the Traffic and Road Safety Act was approved by the Parliament in 1998, and includes, inter-alia, regulation for axle load control. Since then the Government is implementing axle load control (KfW is financing a project of overloading control by means of two weighing bridge stations at Malaba and Busia) and transport safety measures, to minimise road damage and accidents respectively.

3. RESPONSE OF THE TRANSPORT POLICY AND STRATEGY TO DEVELOPMENT OBJECTIVES

3.1. POVERTY REDUCTION

An increased emphasis in Uganda on the reduction of poverty (revised Poverty Eradication Action Plan (PEAP) 2001-2003) has encouraged more attention to be given to the development of rural areas, where the majority of the country's poor are found. It has been recognised that development and thus poverty reduction in rural areas depends on an adequate transport infrastructure, and the access of the rural population to the main transport infrastructure is hampered by the poor condition of district and communities roads.

The creation of increased employment opportunities is also seen as an important means of reducing poverty. The roads sector, as one of the biggest investors of public funds, is considered to offer significant potential for employment creation, particularly through the increased use of labour-based methods.

The PEAP strategies as regards roads are: elimination of disparities in the geographical distribution of feeder roads, improvement of feeder roads to all weather standards in all districts, building of the district administrations' capacity for road construction and sustainable maintenance, promotion of local contractors for undertaking road works and promotion of labour-intensive technologies.

For roads, this has resulted in more focus on feeder roads, which have been relatively neglected compared to classified roads. In the last years district roads have benefited significantly from PAF resources (see 4.3) and, in addition, have been included in the PMA, as a sub-component of the programme, to supplement GoU's overall policy on district road.

In 1992, GoU introduced the strategy for District Roads Rehabilitation and Maintenance. The programme received significant support from Development partners for rehabilitation and maintenance activities. The main objective of the District Roads Rehabilitation and maintenance program was to rehabilitate and sustain District Roads. The sustained effort in the rehabilitation of district roads has increased length of roads that could be described as fair to good from 15% to 50% over the last decade. In 1998, GoU initiated a review and update of the 1992 strategy. The details for this revised strategy have been drafted into a White Paper, which will shortly be tabled to cabinet for review and approval. The key elements of the strategy include:

- to improve access to potentially productive areas, social and administrative centres;
- to sustain the maintenance of District Roads so that they are kept in trafficable condition throughout the year;
- to evolve an effective and efficient institutional framework for the rehabilitation and maintenance of District Roads;
- to ensure that Local Government capacity is gradually strengthened and sustained to enable them carry out maintenance of the rehabilitated District Roads, and in the long run, manage District Roads periodic maintenance;
- encouragement and promotion of active private sector participation;
- involvement of stakeholders at appropriate levels in the formulation and management of roads projects and policies; and
- encouragement of the use of labour-based construction and maintenance methodologies, where appropriate.

The Government has also stated preparing a master plan for feeder roads. The District Road Development Plan, based on the White Paper shall be integrated in the RSDP.

3.2. SUSTAINABLE ECONOMIC AND SOCIAL DEVELOPMENT

GoU sees a sound transport infrastructure as a prerequisite for the socio-economic development of the country, as well as for consolidation of national unity and security.

At present GoU's main transport policy objectives in response to a sustainable economic and social development are: the prioritisation of maintenance and rehabilitation over the extension of the transport network; the separation of transport operations from direct ministerial or state owned company control; the maximum involvement of the private sector in the delivery of transport services; and the strengthening of its capacity to administer policy formulation and regulation functions so as to create an environment conducive to active and fair competition by transport operators.

In road transport, the balance between maintenance and improvement operations has underpinned the development of the RSDP. A rigorous prioritisation has been undertaken to make the programme costs compatible with available resources. The prioritisation includes factors such as operating costs, physical road condition, implementation cost and traffic projections. The following criteria and their relative weighing are applied: economic rate of return (80%); international economic integration (5%); domestic economic development (7%); national economic integration/poverty alleviation (5%); and balanced network scheduling (3%).

Various parts of the road network have been and are due to be upgraded and improved as economically justified to standards commensurate with the projected traffic demand and safety and environmental protection requirements. Emphasis is put on the development of a feasible and integrated maintenance and improvement programme.

Maintenance funds for the national network have been allocated regularly and increased by the Government, but there has been a failure to pay and the Administration's spending on road maintenance has not been in line with the Government commitment.

The expenditure against budgeting for road national maintenance and the overall physical progress as a percentage of the planning targets are presented in the following tables:

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
	US$m	US$m	US$m	US$m	US$m	US$m
Amount Budgeted/planned	12.4	12.04	20.58	23.77	26.25	31.85
Amount spent	11.46	11.83	17.06	21.79	20.89	22.00

	1994/95 %	1995/96 %	1996/97 %	1997/98 %	1998/99 %	1999/00 %
Manual Routine Maintenance	93.8	71.1	84.5	95.8	91.5	100.0
Mechanized Routine Maintenance	49.0	49.4	83.9	87.4	56.4	73.2
Periodic Road Maintenance	19.5	5.7	15.6	18.1	19.8	70.3
Total	47.1	49.4	61.3	67.1	50.9	81.2

With regard to feeder roads it must be said that at present, taking into account limited funds and the extensive network maintained by the districts, maintenance is not sustainable. The maintenance burden exceeds the joint funding capacity of national and district governments. Nevertheless GoU is aiming at maintaining the core network of feeder roads in order to balance economic and social criteria, and has commissioned a study to review and amend the present guidelines to prioritise District Roads Network based on poverty indicators.

Concerning the private sector involvement, a large number of private and commercial users have easy access to public road networks, the objective of separation has been achieved and there is competition in the provision of road transports services. The next remaining major policy issue is the full commercialisation of infrastructure maintenance and rehabilitation through an autonomous road agency - fund. Significant progress has also been made in involving the private sector in road rehabilitation and maintenance activities and this has to be continued.

The regulatory function is still exercised by the MoWHC; which has not yet able to strengthen its capacity to administer policy formulation.

In significant contrast to roads, access to rail and civil aviation infrastructure has to be formally granted and the resulting smaller number of users places a greater weight on the regulatory function to ensure fair competition or to control monopoly provision of transport services.

In civil aviation, where the number of users is small enough for them to be known individually, and there is competition between providers of air services, but the Government has still to complete the privatisation of the state owned airline. There has been successful devolution of infrastructure provision, maintenance and operation to the semi-autonomous Civil Aviation Authority, but there remains scope for increasing its autonomy and improving its financial structure. The CAA plays an important part in regulation on behalf of the MoWHC.

In the rail sector, where there is only one (state owned) user (URC) of state owned infrastructure, and very little progress had been made in any of the main objectives of transport policy, although moves towards the privatisation of the railway company is presently under examination.

In conclusion GoU, although moving in the right direction, is still slow in implementing its transport strategy, which in turn is not supporting sufficiently sustainable and economic development.

3.3. REGIONAL INTEGRATION

Successful regional co-operation is particularly critical for Uganda's transport sector because of its land locked status.

GoU is fully committed within its transport policy to the development of regional dialogue, which relies on the adequacy of mechanisms for intra-regional co-ordination at government level and setting up new cross-border mechanism for regional integrated planning and implementation at operator level, particularly following the introduction of private sector participation.

Regarding conventions, which govern transport, Uganda is a signatory to the UN Convention on Transit Trade of Land-locked countries and it acceded to the UN Convention on carriage of goods by sea (Hamburg Rules) of 1978. It has also acceded to the International Convention on the simplification and harmonisation of custom procedures (Kyoto 1973).

At the regional level measures and regulations on transport are being implemented in co-ordination with neighbouring countries through the EAC Agreements, Northern Corridor Transit Agreements and COMESA Transport and Communications programmes.

3.4. INTEGRATING SAFETY, ENVIRONMENT, GENDER AND HIV/AIDS

Safety - Road safety is now a priority and real concern to the road sector management as a result of the high rate of traffic accidents. To this end, GoU commissioned a Road Safety Audit and Improvement Study, which gave a number of recommendations.

Based on these recommendations both a physical (5 year) Improvement Plan and Institutional (3 years) Action Plan have been set up to assist improving the road safety situation (see 4.5).

Environment - The preservation of the environment is another key concern of the MoWHC: The National Environmental Statute of 1995 made it mandatory for Environmental Impact Assessments (EIA) to be carried out for all new development projects and to be approved by the recently established National Environmental Management Agency. During 1998-99 an Environmental Policy & Management Assessment Study was undertaken. This study identified current Government procedures, regulations and the institutional framework for conducting EIAs, critical constraints to environmental management of the transport sector, developed specific environmental guidelines, and made proposals for the streamlining and standardisation of EIA procedures for transport works.

Gender -Despite the lack of specific policies on addressing gender concern in the transport sector, the need to ensure that marginalized groups in society are specifically targeted for greater involvement in national development processes is reflected in the Uganda's new Constitution (1996). In addition, the requirements to mainstream gender in all development programmes are an explicit requirement of the 1997 National Gender Policy.

HIV/AIDS - It has been established that road related activities are a major contributor in the propagation of the HIV/AIDS scourge to the Uganda population.

To control the spread of the road activity related HIV/AIDS scourge the Ministry has devised a number of strategies for combating it, which include:

- Redouble national efforts to deal with HIV/AIDS problem through public awareness campaigns, seminars, media publicity, leaflets, etc.
- Appoint HIV/AIDS councillors at all sites and border posts and where necessary Consultants as well.
- Include HIV/AIDS regulations in contract documents so that contractors are facilitated to ensure that their staff practice safe sex by providing both education and safe sex materials such as condoms.

4. PROBLEMS AND ISSUES IN IMPLEMENTATION OF THE TRANSPORT STRATEGY

4.1. STAKEHOLDER INVOLVEMENT

Although GoU is pursuing the participation of the private sector in the provision of transport services and in the implementation of infrastructure works, the arrangements made for consultation with key stakeholders of the civil society are still very weak and concern mainly ad hoc meetings to discuss policy issues.

For the effective coordination of the RSDP, GoU has set up a Steering Committee under the chairmanship of the Permanent Secretary of MFPED to oversee the implementation process. An RSDP Co-ordination Unit has been established in the MFPED to serve as a secretariat for the Steering Committee. Members of the Steering Committee are mainly from GoU, RAFU and the donor community, while the civil society is not represented.

Very few donors are involved in the sector, of which four are represented in Uganda (World Bank, Danida, DFID, E.C). This is because of the high level of financial commitment required to intervene in the transport sector, which is rarely accessible to smaller donor agencies.

Concerning roads the sector approach is Washington driven because of the lead taken by the WB at the 1996 Paris Donors Conference, where the RSDP was launched. At that opportunity it was decided, with the agreement of the Commission, that our intervention would focus on classical projects while WB finance all the policy studies and the setting up of RAFU. Since then the Commission has formally assumed the donor leadership role in this sector and last year decided, in agreement with the WB, to relaunch the process towards a more comprehensive road policy. Under the Commission leadership, donors meet quite often.

4.2. ECONOMIC SUSTAINABILITY

As already mentioned the RSDP was developed in 1996 by balancing maintenance and improvement operations, making the programme cost compatible with the country macro-economy. The prioritisation of the interventions were based on a road condition survey, traffic analysis and projections, operation costs etc.

With regard to the improvement of the road network, the focus has so far been placed on main roads. The investments have been decided mainly on economic criteria, such maximising net percent values and obtaining high returns. In so doing traffic has been one of the main criteria during the decision making process.

Since 1998 RAFU is carrying out annual RSDP reviews and updates.

Sustainable road maintenance is a key aspect of Uganda's road network management strategy, which is reflected by the protected budgetary allocations made annually by the Government. According to RSDP, GoU will gradually increase its contribution to road maintenance, and, in return, donors will temporarily assist in eliminating the maintenance backlog caused by shortages in revenues in previous years.

Up to FY 96/97 budgetary allocations, within the road sector, were unbalanced to the disadvantage of district and urban roads. The situation improved dramatically starting from FY 97/98 when district roads were indicated as one of the target areas for disbursement of the PAF (see 4.3). Past insufficient funding, coupled with the lack of proper systems of routine and periodic maintenance at district and community level resulted in a relatively high percentage of the district road network in poor condition compared with the national one. Therefore, the above increased budgetary allocations will need additional external support to clear the maintenance backlog.

GoU's decision to prioritise railways is a move towards the establishment of a different taxation regime, which should create a level playing field between roads and railway. GoU is committed to subsidise unprofitable transport operations on rail, air and water to ensure the provision of transport services deemed to be socially necessary. With regard to air transport five upcountry airports in Uganda receive cross-subsidy from profits of Entebbe Airport operations, towards the maintenance and up keeping of operations.

4.3. FINANCIAL SUSTAINABILITY

Air transport - with the establishment of the Civil Aviation Authority (CAA), a semi-autonomous parastatal institution, GoU has transferred its responsibility for managing and operating most of the nation's civil aviation infrastructure and developing and administering its aviation regulation policy and civil aviation policy. The CAA has a broad remit to operate commercially and to date it has been relatively successful in making overall surpluses at the operating level. This is very much due to relative commercial success of Entebbe Airport which has been able to generate sufficient cash surpluses to cross subsidise the other two main activities (regulation and the running of the upcountry airports).

Apart from the establishment of the CAA, GoU's liberalisation policy has also led to the beginning of a situation that allows the market to set competitive charges. The cargo side of the business is effectively liberalised from this point of view, although the control on airfares has some way to go. The rehabilitation of Entebbe International Airport means that there is adequate capacity for handling passenger traffic until well into the next century. There is no apparent financial or economic basis for any further development of upcountry airports.

Railway - the last five years have seen turbulent times for URC: unstable management structures, a sharp reduction in the size of its operated network, the introduction and failure of a performance agreement between URC and GOU and plans for the introduction of private capital into URC.

Out of a total network length of 1,244 km all but the Kampala-Malaba line (251 km), the spur lines to Kisumu and Mwanza (8 km) and the Kampala-Port Bell (10km) line have been closed to operations since 1996. As a result of its total dependence on international traffic, URC has only limited control of its own traffic. The punctual and reliable delivery of freight entrusted to URC is heavily influenced by Kenyan and Tanzanian, rather than Ugandan institutions.

URC has accumulated a huge debt, and although it is able to cover its cash operating costs from its revenue base, once depreciation, interest on loans, staff retirement benefits etc., are taken into consideration the organisation's losses are getting larger. In this context URC is struggling to maintain and rehabilitate its infrastructure and equipment.

GoU is addressing these issues by promoting active private participation in rail transport but the privatisation process, even if at an advance stage is proceeding very slowly. At the end of the privatisation process all railway infrastructure equipment should be vested in a single railway infrastructure company, which should operate on commercial principles.

Another possible scenario is the combined concession for East African Railway (URC, KRC and TRC), but this option is unlikely to be agreed in the medium term by the three countries.

Road - the RSDP estimated that the annual overall road maintenance expenditure would level off at about USD 40 million. In this regard, an agreed schedule was reached where GoU was committed to increase its funding by USD 4 million annually with a target of GoU fully financing road maintenance by year 2001/02. These targets have been met over the years. The proportion of the National road network in fair to good condition is currently at approximately 60-70%.

Budgeting of National roads maintenance since 1996 is as below (for expenditures see 3.2):

FISCAL YEAR	GOU (USD MIO)	DONORS (USD MIO)	TOTAL (USD MIO)
1996/97	20.58	6.89	27.47
1997/98	23.77	11.50	35.27
1998/99	26.25	13.60	39.85
1999/00	31.85	25.60	57.45
2000/01	36.00	14.65	50.65
2001/02 (Projection)	40.00		

With the completion of Donor commitments to road maintenance (IDA in 2000, DFID in 2001, EC in 2001 and KfW in 2002), the burden of financing maintenance is going to increasingly fall upon GoU. In this regard, next year GoU will allocate a total equivalent of USD 40 million for road maintenance and will commit USD 44.0 million by the year 2002/03.

An update of the RSDP was carried out in 1999. According to the analysis an estimated USD 53.0 million was needed annually for main roads maintenance. Given the present target of USD 44.0 million per year, GoU will, if the estimated amount is confirmed, have to continue with its annual increase of the maintenance budget in USD 4 million increments for another two years. This assumption may be not realistic and GoU will likely be dependent on external funding to prevent a build up of another maintenance backlog.

More information on the required annual costs for the maintenance of the present road network following ongoing and committed improvement projects is expected to emanate from the current update of the 10-year Road Sector Development Programme. It is not however expected to differ much from the analysis done during the 1999 update.

There has also been improvement of the District road network with the proportion of fair to good roads being between 40-50%. For the year 2000, approximately 12,000km of district roads had been improved and some 15,000 km were under regular routine maintenance. This has been possible through the regular funding made available by the Government and its development partners.

Budgeting of district road maintenance since 1996 is as below:

FISCAL YEAR	GoU(USD MIO)	DONORS (USDMIO)	TOTAL (USD MIO)
1996-97	6.6	5.0	11.6
1997-98	10.8	4.6	15.4
1998-99	16.4	2.7	19.1
1990-00	16.8	3.2	20.0
2000-01	19.3	3.0	22.0
2001-02	18.6	-	-

As stated above, the recently prepared White Paper titled "Sustainable Maintenance of District, Urban and Community Access Roads" will shortly be tabled to Cabinet for review.

For District roads the White Paper estimates a rehabilitation backlog of 8,200 km. Periodic maintenance of at least 4,000 km per annum, spot improvements of sections of rehabilitated road and routine maintenance of the feeder road network is to be carried out on a continuous basis.

Overall, around USD 140 million is needed for the maintenance and rehabilitation of District road projects or programmes until June 2006 with GoU funding standing at around 25%.

It is further envisaged that 270 km of bitumen urban roads will require resealing, while a total of 426 km of urban gravel roads will require regravelling. Periodic maintenance will be required on the network at 20km per annum for bitumen roads and 170 km per annum of gravel roads. Regular routine maintenance will be required on the entire maintainable network.

The funding requirements for the maintenance of the existing urban road networks are estimated at an annual expenditure of roughly USD 9 million. Recurrent expenditures required on the urban network from 2001/02 to 2005/06 are between USD 2 and 3 million. Overall, USD 40 million is required to be invested in urban roads future projects or programmes until June 2006, with GoU funding standing around 50%.

As already said funds are regularly allocated and increased by MFPED, though the budget, to the MOWHC, but during the years there has been a significant failure to pay and the Administration's spending on roads maintenance has not been always in line with GoU's commitment.

Although GoU has taken the first steps in the creation of an autonomous road agency, there has, however, been little progress in thinking about the further extension of policy in the direction of commercialising roads.

A study covering managing and financing of the road sector has been completed, but the issue if financing, is either from the state budget, or transformed into a cost recovery based system of road user charges with a dedicated road fund, is still under discussion between Ministries of Works and Finance.

The latter option would imply the transfer of part of the proceeds from a road user charging system towards financing district and urban roads maintenance and rehabilitation on a cost sharing basis with the state budget based district and urban administration funds.

4.4. INSTITUTIONAL SUSTAINABILITY

A new institutional set up has been put in place, (and re-organisational arrangements are still ongoing), aimed at improving efficiency in the transport sector management.

The reforms focus on the establishment of three basic pillars, required for orderly and efficient management of the road sub-sector. The three pillars are related to the separation of planning/financing functions from implementation (management and procurement), while the third function, policy and regulation, remains with the MoWHC.

These re-organisational arrangements have been carried out in the MoWHC with a functional separation of its operational and policy/strategy responsibilities aimed at strengthening road sector management capability. The responsibility for road administration and execution of road activities has been separated from the ministry by the creation of the semi-autonomous performance-based Road Agency Formation Unit (RAFU). The principal function of RAFU is to operationalise and implement transport sector reforms in general and the RSDP in particular. It manages and procures the National Roads Improvement programme, manages (at present) technical, policy and strategy studies as well as various capacity building initiatives for the enhancement and development of the road sector. The RAFU is managed and monitored by a management committee chaired by the Minister of the MoWHC. During the first two years of the RSDP, the activities of RAFU were curtailed by insufficient staffing capacity especially in the engineering division. This constraint, however, is being addressed with the near completion of the recruitment of engineering staff, and the activities of RAFU have started to gain momentum. In future, RAFU will also manage maintenance works.

The role of MoWHC is being redefined towards regulatory and monitoring functions, with emphasis on sector policy formulation, investment planning, public expenditure management, performance monitoring of sector agencies, and road safety and environmental protection and gender issues. Unfortunately adequate steps have not been taken to improve capability and capacity of staff, which is imperative especially in view of the challenging new functions.

MFPED is responsible for the planning and updating of mid-term and long-term investment programmes and for disbursing the funds needed by the road sub-sector and, monitoring the use of these funds. For the effective implementation of the RSDP, Government has set up a Steering Committee under the Chairmanship of the Permanent Secretary MFPED to oversee the implementation process. An RSDP Coordination Unit has been established in the MFPED to serve as a secretariat for the Steering Committee and its roles include Program Information Management, RSDP Performance Review, Updating and rolling of the RSDP, Development of a prioritised District and Urban Roads Program, common issues and (Policy) studies and the Dissemination of Information on Quarterly and Annual Progress Reviews.

The situation is more problematic at district level where, after the promulgation of the 1997 Local Government Act, the full devolution of road maintenance services to local and urban authorities has been very slow and guarded, with rehabilitation still in the hands of Central Government through the relevant Ministry (now MWHC). The main problem is that management structures for districts are not completely effective and are not uniform for all districts throughout the country. In many districts the full staff establishment is not yet filled, due partly to lack of resources at district level and unattractive renumeration for staff.

Another institutional problem is the low level of involvement of key private sector stakeholder in institutional reforms (steering committees, advisory groups etc).

GoU has recognised the shortage of technical and managerial skills in the local construction industry. Efforts to develop the domestic construction industry include training and contracting out of road works, especially maintenance. Training of local contractors in the use of labour-based methods is being carried out at the newly reconstructed Mt Elgon Training Centre. Private sector participation in road works has been increasing over the years and currently 100% of manual routine maintenance, 60% of mechanized routine maintenance and all periodic maintenance are carried out by contract.

4.5. ENVIRONMENTAL AND SOCIAL AWARENESS

Safety - the present situation in Uganda concerning safety is dramatic with an unacceptably high rate of traffic accidents (7.2 accidents per 100 vehicle per year, compared to 0.5 per 100 vehicle per year in the E.U.). The rate of accidents has increased during recent years as a consequence of over-speeding with the provision of a good road transport network and the increase in traffic volumes.

There have been no campaigns to promote the use of safety belts, to avoid drink and drive practices and to respect speed limits. In conclusion very little has been done up to now.

The main problem seems to be the weakness of the National Road Safety Council (NRSC) which is exacerbated by the lack of coordination and harmonisation of the activities of the many stakeholder involved in road safety (MoWHC, Kampala City Council and other Municipalities, Uganda Police, Health Agencies etc).

A fund of USD 4.5 million has finally been set up to carry out, starting from 2002/03, under the leading role of the MoWHC, both the Physical Improvement Plan and Institutional Action Plan, mentioned in 3.4. The plans includes:

- Black spot identification and treatment through improved roadway design
- Accident statistics collection and analysis
- Police enforcement capacity development
- Road safety education programme development and implementation
- Public information strategy execution
- Health care and accident response capacity improvement

Environment - the Government is reasonably consistent in the enforcement of the National Environmental Statute and the approval of all rehabilitation and development projects in Uganda are subject to the preparation of sound Environmental Impact Assessment Studies. EIA are coupled with Management Environmental Plans, which indicate mitigation measures during the implementation phase of the project and consider environmental impact beyond implementation. The MEP identifies the parties involved in the implementation of the mitigation measures such as contractors, supervisors, agencies, local authorities etc. To ensure adherence to and practise of the above requirements and to coordinate the dialogue with NEMA, an Environmental Liaison Unit (ELU) has been established in MoWHC.

Gender - Although political will for mainstreaming gender considerations exists in Uganda, the concept of gender is still new and commitment to gender equality has not yet translated and permeated in most of the national policies and sectoral development such as the transport sector.

With regard to employment in the transport sector there is a traditional bias towards men and only in recent years have women taken jobs in roads projects, especially in rehabilitation and maintenance of district and community roads.

HIV/AIDS -Uganda is recognised as the best performing country in Africa for the fight against HIV/AIDS. Awareness campaigns are undertaken regularly and, in transport projects, funds for those campaigns and for the provision of AIDS Councillors and safe sex materials are always set aside.

5. CONSISTENCY WITH GOU STRATEGY AND COMPLEMENTARILY WITH DONORS ACTION

Although the RSDP needs review and fine-tuning of its strategies, it still constitutes a good policy framework for support to national roads. It shall be integrated with a District, Urban and Community roads plan. Working within this framework will ensure consistency with GoU's transport strategy and complementarily to other donors' actions.

The European Commission has been traditionally involved in the support to the transport sector, with particular regard to roads. The support has expanded during the years to reach, with the 8th EDF, an allocation to road projects of 55% of the total NIP, including substantial Regional and STABEX funds.

Through close involvement with the transport sector the Delegation has gained experience in the sector, and in roads has taken a leading role in the sector recognised by GoU and other Donors. EC support has been up to now mainly project oriented, while GoU, under WB funding, has been carrying out a number of policy studies to define a comprehensive approach to a new road sector policy. But the situation is being reversed as explained in 3.1.

Given the lessons learnt and, in order to play a more active role and improve the sustainability of EC support, funding of road projects under the 9th EDF will be better embedded in support to the development, the implementation and the monitoring of a national road (transport) sector policy and will include capacity building in the public sector (MoWHC).

6. PROPOSAL FOR SECTOR INDICATORS

Within the review and update of the RSDP the Government will introduce indicators to monitor the performance of the Ministry of Works and the RAFU/Road Agency.

The system proposed identifies 13 indicators grouped in: a) budget expenditure, b) road maintenance works, road conditions, c) traffic flows, freight and passenger tariff and road user costs, d) safety and environment.

It is proposed, for the sake of harmonisation, to use the same indicators to monitor our programme support.

More in details the 13 indicators are:

1) Size of the MoWHC, and MoWHC administration budget
2) Size of RAFU and RAFU administration budget and expenditure
3) Annual roads budget and actual road expenditure
4) Registered local contractor and consultant
5) Road traffic growth (from traffic counts)
6) Other traffic growth indicators
7) Road length maintained
8) New roads constructed and maintained
9) Paved road condition
10) Construction contract and consultancy services procurement
11) Fares and freight rates/vehicle operating costs
12) Fatalities and injuries in road accidents
13) Implementation of mitigation measures for environmental impact

6.1. MONITORING OF INDICATORS

The indicators may be divided in two types: those to be collected from published sources and by interview with ministries, RAFU etc and those requiring new survey work.

Regular collection and analysis of data will be done in the context of the annual RSDP reviews and will be managed by the RSDP coordination office - MFPED.

ANNEX 2.4 – DECENTRALISATION

Since coming to power in 1986 NRM Government has taken significant steps to decentralise power to Local Governments (LGs) in fulfilment of its commitment in its Ten Point Programme to establish popular democracy in the country. Decentralisation is not regarded merely as a policy goal that is intended to shift responsibility for development to local authorities, but as a policy instrument that will establish local democracy and improve accountability, efficiency, equity, effectiveness and sustainability in the provision of social services across the country.

The implementation of decentralisation has been sequenced through several practical steps, of which six require special mention. First, Resistance Councils were established in NRM's areas of operation during the guerrilla war, and then replicated throughout the country when the NRM regime Government came to power in 1986. Second, a Commission of Inquiry was set up in August 1986 to review the Local Government System, and it recommended in its report of July 1987 that powers should be extensively decentralised to LGs to revise the adverse effects of earlier centralising tendencies. Thirdly, in 1992 Cabinet adopted devolution as the central plank of Uganda's decentralisation strategy, as opposed to mere deconcentration or delegation of powers by the Central Government. Fourth, the Resistance Councils Statute was promulgated in 1993, for the first time giving legal status to LGs in a decentralised setting. Fifth, the decentralisation policy was incorporated into the 1995 Constitution to ensure that its reversal could only be effected through constitutional revision. Finally, Parliament promulgated the LGs Act, 1997 (LGA) in which the roles, functions and powers of Central and LGs were extensively detailed to facilitate a smooth and synchronised implementation process. Currently, a comprehensive review of the LGA is being undertaken to refine this legislation even further.

Because Uganda's decentralisation policy is still in its infancy, its implementation is being continuously refined to generate effective and sustainable institutions and processes that are custom-tailored to Uganda's specific circumstances. The following sections provide an overview of the progress that has been made to date, and the challenges that have to be addressed to successfully establish decentralised governance in the country.

POLICY OBJECTIVES

The objective of this major policy change is to improve service delivery by shifting policy implementation away from an aloof, inefficient centre to the actual point of delivery; to promote good governance by emphasising transparency and accountability in the management of public affairs; to democratise society through promotion of inclusive, representative decision-making; and to alleviate poverty through collaborative efforts between Central and LGs, donors, non-Governmental organisations (NGOs), the private sector and other stakeholders.

Today Local Government Councils (LGC) in Uganda are fully-fledged representative structures with extensive legislative, planning, revenue collection, budgeting and development management responsibilities and powers. These powers are anchored in the 1995 Constitution and the LGA, the two most authoritative documents on Uganda's decentralisation policy and process. The immediate and short-term objective of these measures is to provide LGs with critical information, skills and inputs to enable them to make a satisfactory start. It is expected that LGs will progressively gain competence as they refine their systems and processes to suit their individual circumstances in conformity with national laws and policies.

FINANCIAL DECENTRALISATION AND FISCAL TRANSFERS IN UGANDA

Since 1993, Uganda embarked on an extensive decentralisation process. Uganda presently has a multi system of local governance, rural and urban. In rural areas, local Governments comprises 56 districts, which delegate powers to counties (155), sub-counties (900), parishes (4000) and villages (45,000). Urban areas are governed depending on the size of their population, by city (10), municipality (130) and town councils (50). Furthermore, cities and municipalities are sub-divided into divisions (39) and wards. The capital city, Kampala, has taken on the status of a district. The different levels in LGs lead to substantial co-ordination costs among the various LGs. At present, it leads to the absorption of a fairly large share of the merger local revenue for funding administrative costs.

The expenditure responsibilities of the districts and urban LGs are broadly in line with those assigned to LGs in most highly decentralised systems. The sixth schedule of the constitution of 1995 gives them responsibility for all functions not explicitly assigned to each tier of government. More specifically, the central government is responsible for typical national public goods, such as law, order, defence, foreign affairs, monetary policy, natural resources and the regulation of all economic sectors. Moreover, the central Government retains the power of setting national guidelines and standards in most policy areas for which LGs are responsible.

Taxes, fees, user charges and central government grants finance LGs. In addition, donors provide substantial resources, especially for capital investment, to a large number of them. Finally LGs are allowed to borrow from the banking system, within the constraints imposed by the LGA, although so far there has been little borrowing by LGs. Rural and Urban LGs have graduated tax as their main source of revenue and this accounts for about 80% of total revenue. The property tax is practically unexploited and produces only significant revenue only in a few urban local councils. Local taxes rates and fees are determined freely by LGs, with the advice of the LGs finance commission.

Local revenue collections are made by Sub-counties in rural Districts and by divisions in municipal and city councils. According to a detailed revenue sharing scheme by the Local Government Act of 1997, 35 percent of the total collections have to be transferred to Districts. Of the remaining 65 percent of collections, 5 percent has to be remitted to county councils, 5 percent has to be distributed among parishes and 25 percent has to be distributed to village councils. A formula based revenue sharing scheme is also available in the LGA for the distribution to division councils of revenues collected by the municipalities and cities.

The Constitution has four types of financing decentralisation in Uganda. The Constitution has provided the Grants system, which has four types of Grants to enable Local Authorities meet their obligations. The four grant systems are as follows.

The unconditional grant is the minimum grant paid to local governments to run decentralised services. Unconditional grants are the most important types of grants local authorities receive from the Central Government. Its importance does not lie in the amount that is received or transferred to Local Authorities but that Local Authorities have independence, to a great extent as to how they budget for this grant. The Local Authorities can determine their priorities taking into consideration the National Priority Programme Areas. Most LGs' priorities are similar to the National Priority Programme areas.

The unconditional grants are paid to Districts, Municipal Councils and Town Councils only. The distribution of the unconditional grant to Districts, Municipal and Town Councils is done by a formula of population and area with weights of 85% and 15% respectively.

The conditional grants consists of moneys given to local governments to finance programmes agreed upon between the government and the local governments and are expended for purposes for which it was made and in accordance with conditions agreed upon. To date twenty-seven (27) conditional grants are transferred to local governments. The conditional grants are currently being paid to Districts only.

This type of grant is supposed to be paid to local governments as a subsidy or special provision for the least developed districts and is supposed to be based on the degree to which a local government unit is lagging behind the national average standard for a particular service. It has taken the central government four (4) years since the Constitution came into force to start transferring this grant to local governments.

LGs are required by the law to pass on the conditional grants and equalisation grants received from the central government to local government councils with a smaller jurisdiction or lower councils.

It should be noted that the recurrent budget of the National budget has been decentralised to LGs first, the development budget was decentralised to LG starting FY 1999/2000.

The so-called "Fiscal Decentralisation Study" carried out recently has recommended a simplification of the complex transfers system – its recommendations have been agreed by the Ministry of Finance, Planning and Economic Development and should be operationalised as a pilot basis from FY2002-03.

LGDP SYSTEM

The District Development Project (DDP) and the subsequent Local Government Development Programme (LGDP) have developed a framework that makes enhancing good local governance central to the implementation of development investments. Both programmes provide non-sector specific development grants to LGs according to a transparent formula. LGs qualify to access these grants once they have achieved specified 'governance criteria'. The governance criteria are based on the requirements specified in the LGA and the Local Government Finance and Accounting Regulations, 1998 (LGFAAR).

Central to the DDP/LGDP design are the annual assessments of Districts/municipalities, sub-counties/divisions and town councils against the pre-set governance criteria (the so-called 'minimum access conditions') and performance criteria. The *'minimum conditions'* determine whether a district or a sub-county is eligible to access the Local Development Fund. The *performance criteria,* assessed in retrospect determine whether a local government is eligible for a reward or penalty (i.e. whether the amount of the Development Fund is to remain constant to be increased or decreased for the next financial year).

Districts which do not meet the minimum access criteria can still benefit from the Capacity Building Grant (a separate funding-line under DDP/LGDP) in order to assist them qualify for development funding in future. Sub-counties and districts are given incentives for good governance and service delivery through a reward and penalty system: those that perform well against the performance criteria receive an increase in their allocations in subsequent years (an additional 20%), whilst those which perform poorly get a reduction of 20%.

COVERAGE

In FY 2000/01 12 Districts in addition to the 5 DDP Districts qualified for LGDP and are receiving development grants. All remaining districts (including 9 districts which have been receiving bilateral support) have just been assessed. Final results are not yet known, but it is expected that the majority of Districts will qualify to receive development grants in FY 2001/02. Those that do not qualify will receive capacity building support in FY 2001/02, and will be reassessed for FY 2002/03.

ANNEX 3 – THE EUROPEAN INVESTMENT BANK

1. The Cotonou Agreement focuses on the private sector as the motor for economic growth. It provides that the European Investment Bank shall make financing available for projects in the ACP from its own resources and the Investment Facility, largely to foster the development of private enterprise. The Bank has the further mission to help mobilise domestic and foreign capital for this purpose, either directly or indirectly through eligible financial intermediaries. It will dispense a variety of financial products: funding in the form of equity, quasi equity, loans both in local currency and foreign exchange, providing guarantees when necessary. It can operate in all productive and infrastructure sectors with domestic and foreign entrepreneurs, and may also support the financing of public infrastructure, if run on a commercially viable footing.

2. There is a strong foundation to these roles. The Bank's operations to date in Uganda (under Lomé IV) have been almost exclusively in favour of private sector development. Uganda's impressive economic performance over the past decade has generated a volume of investments eligible for EIB operations significantly larger than foreseen when indicators for Bank operations were originally adopted in the 1st and 2nd financial protocols to the Lomé IV convention. These envisaged an aggregate EUR 65 m (EUR 15m guaranteed under the first protocol plus EUR 50m as indicative figure under the second). As at 30th June 2001, the Bank had provided EUR 88m (of which EUR 18m in loans from the Bank's own resources, EUR 70.0 million in the form of risk capital operations, drawn from EDF resources). At the same date, further projects were in the process phase (some at an initial stage of identification, others under appraisal). On the basis of past experience, this could give rise to some EUR 60m of loans and risk capital.

3. However, since the Bank works essentially within a "market" context, it is not possible to programme funding in the same manner as for various other EU interventions. The allocation of the Bank's resources will depend on the intentions of promoters – their propensity to invest and to risk; on the quality of projects submitted and the results of detailed appraisals carried out in compliance with the procedures of the Bank; also, on the ability of investors to raise complementary funding on appropriate conditions.

4. The "market" and its capacity to continue generating projects eligible for the EIB can be assisted or constrained by many factors. The Bank recognises that the Government has generally adopted measures, in its macro-economic management, that work towards building business confidence, and in particular to fostering a higher degree of predictability on tax issues and other fiscal or administrative processes that directly affect private sector investment decisions. Nonetheless, various influences impact unfavourably at the present time:

- **Political**: The instability in the Great Lakes area, and more precisely Ugandan involvement in the Congo;
- **Financial Sector**: risk-adversity in general; balance sheet and management weaknesses amongst some smaller banks; the "sterilisation" of a large chunk of the commercial banking system in the Uganda Commercial Bank (30% of total banking deposits) has recently being solved through the privatisation of UCB, allowing more competition;
- **Privatisation**: despite a good start (and notably a success in the field of telecommunications), progress has been disappointing in key areas (power, water, railways). High cost /unreliability of utilities is a major constraint to business;
- **Small internal market**: this can be partly addressed if East African co-operation moves to a more concrete level insofar as trade and investment issues are concerned.

5. Within the limitations of the above, the EIB is conscious that business access to finance, particularly long-term funds, is vital to Uganda's development objectives. This was listed by the IMF at the Consultative Group meeting in Kampala, in May 2001, as one of the major economic challenges for the country over the medium term if it is to sustain high economic growth rates. The Bank will work together with Member States' finance agencies (EDFI), with the commercial banking system, and will identify where possible synergies with the Commission and the various instruments that have been developed to foster private sector activities e.g. Diagnos, EBAS, Proinvest, and the CDE (Centre pour le Développement de l'Entreprise).

6. The environment in which the Bank operates should benefit from Commission funding to business associations to augment their capacity to act on behalf of private sector (the formation of higher skills and organisation may contribute to improved awareness of and access to funding). Also, measures directed to capacity-building of public and private sector institutions involved in the regional co-operation process may assist in widening the scope for EIB operations: as mentioned above, Uganda could benefit substantially from a genuine East African common market but there is little evidence that business is orienting itself to this challenge, and proposed infrastructure projects of a regional nature (in the energy, telecoms and aviation fields) have proven difficult to push beyond planning stage. A further question arises, as to how the EIB lending programmes for small and medium-scale investments (essentially through commercial banks) may be adjusted downwards to come closer to the micro-finance sector. The Bank will examine requirements for direct participation in the financing of micro-finance institutions, in liaison where appropriate with Commission funding for capacity-building.

7. In the productive sectors, particular emphasis will be given to strengthening and diversifying export capacity, developing efficient domestic market enterprises, creating employment and adding value to domestic inputs. The agro-industrial sector, which has evident potential for development in Uganda, could be an important vector of support for the poverty alleviation objectives, since most such projects are located in the rural areas and generate, directly and indirectly, employment and trade opportunities for local communities.

8. The infrastructure development measures envisaged in the Focal Sector of Transport should assist private sector development, especially if investment is to be encouraged in up-country areas. In the capital, Kampala, plans for an industrial zone need to be linked into the proposed city ring-road. Once privatised, the railways will certainly require substantial investment. Other fields for potential development of the Bank's operations in support of infrastructure provision are the energy sector (electricity generation, transmission, distribution; possibly, also cross-border initiatives concerning oil supplies); telecommunications (continuing investment, both in fixed line and mobile, as well as data transmission and other services); and water and sewage treatment (depending upon progress in establishing a sustainable financial structure for these services).

ANNEX 4 – DONOR MATRIX

Million € over the currently programmed period		Funding agency													
NType	NSector	African Development Bank	Austria	Belgium	Denmark (1)	DFID (2)	Federal republic of Germany	France	Ireland	Italy	Netherlands	Sweden	USAID (3)	World Bank	Grand Total
Economic Development									3.44 €		69.28 €	16.80 €		490.00 €	654.22 €
	Economic Policy													163.48 €	163.48 €
	Enabling environment	45.00 €	0.87 €			2.78 €			22.34 €		6.08 €	24.08 €		27.50 €	128.66 €
	Public sector													76.57 €	76.57 €
	Research											6.07 €			6.07 €
	Tax Policy											1.68 €			1.68 €
	Urban Development													24.35 €	24.35 €
Economic Development Total		45.00 €	0.87 €			2.78 €			25.78 €		75.36 €	48.63 €		781.89 €	1,055.02 €
Productivity sector activity				0.60 €											0.60 €
	Agriculture	39.87 €		2.18 €	40.00 €		3.58 €	1.83 €	1.66 €		3.18 €	5.11 €	24.65 €	105.87 €	227.92 €
	Energy					26.28 €	1.02 €							475.00 €	502.31 €
	Infrastructure	21.67 €		3.72 €	60.00 €	9.27 €	0.00 €	1.22 €				10.08 €		231.66 €	455.82 €
	MTCS	21.52 €	2.84 €	1.75 €		4.44 €	1.79 €					1.68 €		52.72 €	93.74 €
	Tourism														5.00 €
Productivity sector activity Total		83.06 €	2.84 €	8.25 €	100.00 €	40.00 €	6.39 €	3.05 €	1.66 €		3.18 €	16.87 €	24.65 €	865.25 €	1,285.39 €
Social Development				0.50 €					7.80 €		1.96 €				29.56 €
	Education					47.95 €	8.58 €		12.13 €	1.48 €	33.51 €		10.98 €	57.17 €	202.80 €
	Health	46.94 €		15.56 €	40.00 €	27.78 €	12.37 €	16.09 €	11.05 €	28.25 €		11.87 €	14.78 €	140.22 €	390.51 €
	Population						4.70 €								4.70 €
	Refugees					0.18 €	1.02 €								1.20 €
	Water Supply & Santn	0.00 €	5.74 €		50.00 €	4.45 €	18.50 €	8.16 €		5.94 €				46.30 €	141.09 €
Social Development Total		46.94 €	5.74 €	16.05 €	90.00 €	80.35 €	45.18 €	24.25 €	30.98 €	35.66 €	35.47 €	11.87 €	25.76 €	243.70 €	769.86 €
Thematic-crosscutting issues															5.00 €
	Civil society			0.35 €											0.35 €
	Cultural Co-operation		1.31 €												1.31 €
	Environment	11.41 €	1.45 €	4.60 €		13.93 €	8.18 €				6.22 €		9.35 €	25.98 €	93.12 €
	Gender										0.31 €				0.31 €
	Good governance		7.63 €	16.20 €	10.00 €	14.62 €		1.07 €	0.79 €		26.33 €	1.68 €	3.48 €	87.93 €	169.74 €
	HIV/AIDS			3.05 €										51.63 €	54.68 €
	Human rights			0.32 €								1.34 €			1.66 €
Thematic-crosscutting issues Total		11.41 €	10.40 €	24.52 €	10.00 €	28.55 €	8.18 €	1.07 €	0.79 €		32.86 €	3.02 €	12.83 €	165.54 €	326.17 €
Grand Total		186.41 €	19.85 €	48.82 €	200.00 €	151.69 €	59.75 €	28.37 €	59.21 €	35.66 €	146.87 €	80.39 €	63.24 €	2,056.38 €	3,436.44 €

(1) Programmed period (2001 - 2004) indicative amount due to freezed new realeases due to DRC
(2) Programmed period depending on the programmes (1-4 years during 2000-2003)
(3) Annual budget for the current programme, exception of agriculture and social development

ANNEX 4.A. - PROGRAMMES OF DEVELOPMENT PARTNERS

AUSTRIA

The Austrian Development Cooperation's programme concentrates on Water and Sanitation, Private Sector Development and on Governance/Decentralisation. All interventions are strategically compliant with the PEAP and the MTCS. Though, most financing still comes in form of projects. Sector finance and participation in SWAp in the Justice/Law and Order Sector since 2001. Sectoral budget support in the Water and Sanitation Sector follows 2002. Since 1999 the Austrian country programme in Uganda runs on a significantly reduced budget, due to domestic budget consolidation. A new bilateral agreement over 3 years is expected for 2002.

BELGIUM

Belgium has a diversified portfolio of activities in Uganda; most of it is channelled through bilateral co-operation (60%), although a substantial part goes to multilateral co-operation. Belgian and international NGO's, together with UN agencies, are in charge of the implementation of multilateral programmes (12 million €).

Belgium is under discussion with GoU to reach a general agreement on its development policy in Uganda. For the moment, new projects are on hold, pending the full implementation by Uganda of the Lusaka agreements paving the way to its withdrawal of the DRC. For the future, Belgian co-operation strategy will be developed on the basis of the EU development Council Resolutions. This programme will cover the 2002 – 2006 period and will focus on 4 main sectors for a likely total budget of 28 million €. Nothing has been firmly identified but environment with urban development, decentralisation with districts development plans in line with LGDP and HIV/AIDS are among the candidates.

DENMARK

The current country strategy of Denmark is focused on four priority sectors: health sector programme, water sector programme, agricultural sector programme support and road sector programme support. The Danish support is expected to gradually include sector-wide budget support, provided conditions are right, but for now, given the involvement of Uganda in DRC, this is unlikely. A higher degree of geographical concentration would be pursued. Interventions aimed at democratisation, human rights and good governance have been developed. The indicative planned financial figure for 2000 – 2004 is 1,460 million DKK (about 200 million €).

In the Health sector, all the components of the Danish programme are in line with HSSP but the funding mechanism is not budget support. The water sector programme comprises components dealing with provision of water and promotion of sanitation/hygiene in rural areas and small towns in Eastern Uganda, water resources management and support to policy management. The Danish supported road sector programme consists of trunk roads, feeder roads and policy development and implementation.

FRANCE

Due to Uganda's investment in the DRC, the French Government has not cleared new projects and programmes yet. The current, and the foreseen, portfolio are "project" oriented but cover several goals of the PEAP in well-identified areas of the country. France has also contributed substantially to the Paris Club debt relief. In the future, activities are likely to be more focused.

GERMANY

Germany has finalised its strategy for the 3 next years. The priorities identified will focus on urban water, technical and vocational education and training (TVET) and on financial system development. The total funding will be 88 million DEM for the whole period.

ITALY

Italy has very recently (May 2001) finalised its strategies for Uganda 2000-2002. The programme has been designed in the framework of the Uganda strategy for a sustainable and equitable growth. It consists of support to Uganda's PEAP through initiatives in the health and agricultural sectors in selected Districts and sub-Districts; support to Uganda fight against AIDS within a regional framework and consolidation and rationalisation of the on-going higher education initiatives.

The Italian co-operation budget for the three-year period consists of roughly USD 38 million of which 25 will be soft loans. Italian ODA will share up to 70% of the costs of selected Italian NGO private projects over and above this budget.

IRELAND

Ireland finalised its negotiation with GoU for its next development programmes in September 2000. The Ireland Aid Uganda Country Strategy Paper (2000 – 2003) focus is on increasing the volume of support, moving towards budgetary support, although continuing to focus on social sectors and basic needs. Ireland Aid is also planning to support the productive sector, district programmes. Cross-cutting issues such as mainstreaming gender and putting into effect the Ireland Aid HIV/AIDS strategy are also central to the programme.

Ireland Aid has recently agreed to channel a more substantial part of its development funds through a global budget support contribution. The modalities and undertakings by GoU will be in line with the Poverty Reduction Support Credit (PRSC) developed between GoU and WB (see below).

THE NETHERLANDS

The bilateral development co-operation between the Netherlands and Uganda is characterised by a change from project related aid programmes towards more general forms of support to the government budget. The rationale for moving towards budget support is the confidence that the Netherlands has in the macro economic and socio-economic policy of the government of Uganda.

The co-operation programme contains the following elements (with annual amounts):

- General budget support
- The actual annual reservation amount to EUR 15,5 million, of which EUR 5 million will be notionally earmarked for the legal Sector.
- Support to three priority sectors:
  - a. Education
    - sector budget support to education — EUR 17,1 million
    - Primary Education Reform Programme — EUR 1,2 million
  - b. Legal Sector EUR 5 million in 2002 through notionally earmarked general budget support
  - c. Local Governance
    - Budget support to the districts (linked to LGDP) — EUR 5,3 million
    - Technical Assistance to the Districts — EUR 0,7 million
    - Retrenchment fund — EUR 0,4 million
    - Contribution to CEFORD — EUR 0,3 million
    - Contribution to NAADS — EUR 1,2 million
- Cross cutting programmes
- Support to the central Tender Board — EUR 2,27 million
- Support to the Office of the Auditor General — EUR 1,0 million
- Public Service reform Programme: — (No reservation yet)
- Other activities imply mainstreaming of Environmental and Gender issues in the existing programmes and support to Human Rights initiatives (EUR 0,2 million)

SWEDEN

Sweden's country strategy for 2001-2003 has been signed. It envisions a minimum programme size of USD 45 million focused as previously in direct support to social sector budgets. SIDA will also increase its focus on the development of the private sector, especially by improving the capacity of SME to increase their financial sustainability by better access to the financial sector.

UNITED KINGDOM

DFID is the most important bilateral development partner in Uganda. Its current strategy aims at increasingly global and sector budget support, but DFID still has a very large project portfolio in Uganda. Staff from the Kampala based office are present in all sectors of the national development policy, even if DFID is not involved financially. Recently DFID has identified trade and global budget support as new components in its portfolio.

NORWAY

In February 2001, Norway signed a Memorandum of Understanding covering its country programme for 2001-2005 based on a review paper drafted July last. Bilateral negotiations with GoU have still to take place to finalise its implementation. Norway's development co-operation is mainly channelled through NGO's and multilateral institutions, and private companies mainly active in the energy sector.

FAO

This UN agency is an active partner in the implementation and development of the PMA. The FAO is also active in the whole agriculture sector. FAO technical resources are available to the sector and are often the basis on which the EC-FAO framework agreements are implemented. This specific co-ordination mechanism will be exploited as a valuable resource for further EC support in the sector.

UNDP

The Country co-operation framework for UNDP has been approved for 2001-2005. The main areas of emphasis are governance, income generation and poverty monitoring, USD 15 million have been allocated to this programme for the first 3 years.

WORLD BANK

The WB is the most important donor in Uganda with a current IDA portfolio of USD 1,111 million and an IFC one of about USD 60 million as of July 2000. The WB finalised its Country Assistance Strategy in October 2000 for the next three years. WB's assistance is refocused on cross-cutting public sector management issues because their analysis concluded that weaknesses in service delivery are among the key constraints to economic transformation and poverty reduction in Uganda. CAS 2000 is moving away from the traditional combination of structural adjustment operation combined with discrete investment projects to the support of a comprehensive reform programme through a series of PRSC over the PRSP period, disbursed against progress in policy and institutional reforms.

WB will finalise (by August 2001), the PRSC that will cover two PEAP/PRSC cycles. The performance indicators will first focus (PRSC I) on the improvements in public service delivery, in education, health, water and sanitation. The release of the tranches will be triggered by the achievement of measurable results in these three sectors but also in corruption and good governance. The PRSC's pillars will not focus initially on the third goal of the PEAP. Subsequently PRSC II will focus on public services that will facilitate widespread rural development, and build local government. It will also focus on increasing the ability of the poor to raise their incomes (Goal 3 of the PEAP), through comprehensive rural development. Both phases of PRSC will provide general budget and financial support to GoU.

According to WB, the shift to PRSCs is a feasible strategy, given Uganda's advanced budget process. The PEAP and sector programmes provide clear policy objectives and the MTEF ensures consistency between public spending allocations and policy priorities.

This does not exclude other interventions of the WB. The WB is currently planning more new projects in electric power and the energy sector, and in roads.

USAID

USA is an important donor in Uganda[6]. Its assistance package of interventions in 2000, was for all its budget lines together worth USD 57.150 millions, including food aid USD 8.8 million. USAID is working on its Six Year Strategy for 2001-2006.

USAID will also continue an important support programme for the development of the private sector, Speed, aiming mainly at building capacity in SMEs. Additional effort to identify more diversified and sustainable export potential will also be dealt with by the USAID Compete programme.

The US has finally got the African Growth Opportunity Act (AGOA) approved by the Congress under the Democrat administration and is expecting the ACP countries to embrace it.

IFAD

IFAD's interventions in Uganda are absolutely not co-ordinated with the other donors. Moreover, since IFAD has very often its own agenda, these interventions sometimes put into question existing and often fragile developments, such as the recent loan proposed by IFAD to develop its own programme of rural finance, ignoring what had already been achieved by the micro finance sector and what is planned under the PMA (Outreach Plan).
The current loan portfolio of IFAD amounts to 100 million SDR funding several projects in the agricultural sector, mainly for rehabilitation, reconstruction and modernisation, including direct support to the cotton industry

[6] The third largest bilateral donor after the UK and Denmark, the fifth overall donor.

ANNEX 5 - PAST AND ON-GOING MAIN EDF SUPPORT

Lome	Period	NIP (million €)	Main sectors	Stabex	SAF	EIB support
I	1976-80	73.6	Agriculture, rural development, infrastructure			
II	1981-85	87	Agriculture, rural development, infrastructure			
III	1986-90	133	Agriculture, rural development, infrastructure		32.25	15.6
IVa	1991-96	163.2	Agriculture, rural development, infrastructure, decentralisation, private sector investment	144.1	51.8	38.6
IVb	1997-2001	210	social sectors, agriculture, environment, infrastructure	31.9	94.8	50

ANNEX 6 - UGANDA AT A GLANCE

GENERAL

Indicators (1999)	Uganda	Sub-Saharan Africa
Area (square km):	241,038	
Population (million):	21.5	642
Rural population:	84.5%	67.5%
Life expectancy at birth:	42 years	50 years
Population growth rate (1993-99):	2.9%	2.6%
Infant mortality (per 1,000 live births)	97	92
Fertility rate (1997):	6.6	5.5
Child malnutrition (% of children under 5 years)	26	32
Access to improvement water source:	52	43
Access to sanitation facilities:	67	47
Human Development Index (HDI):	158	

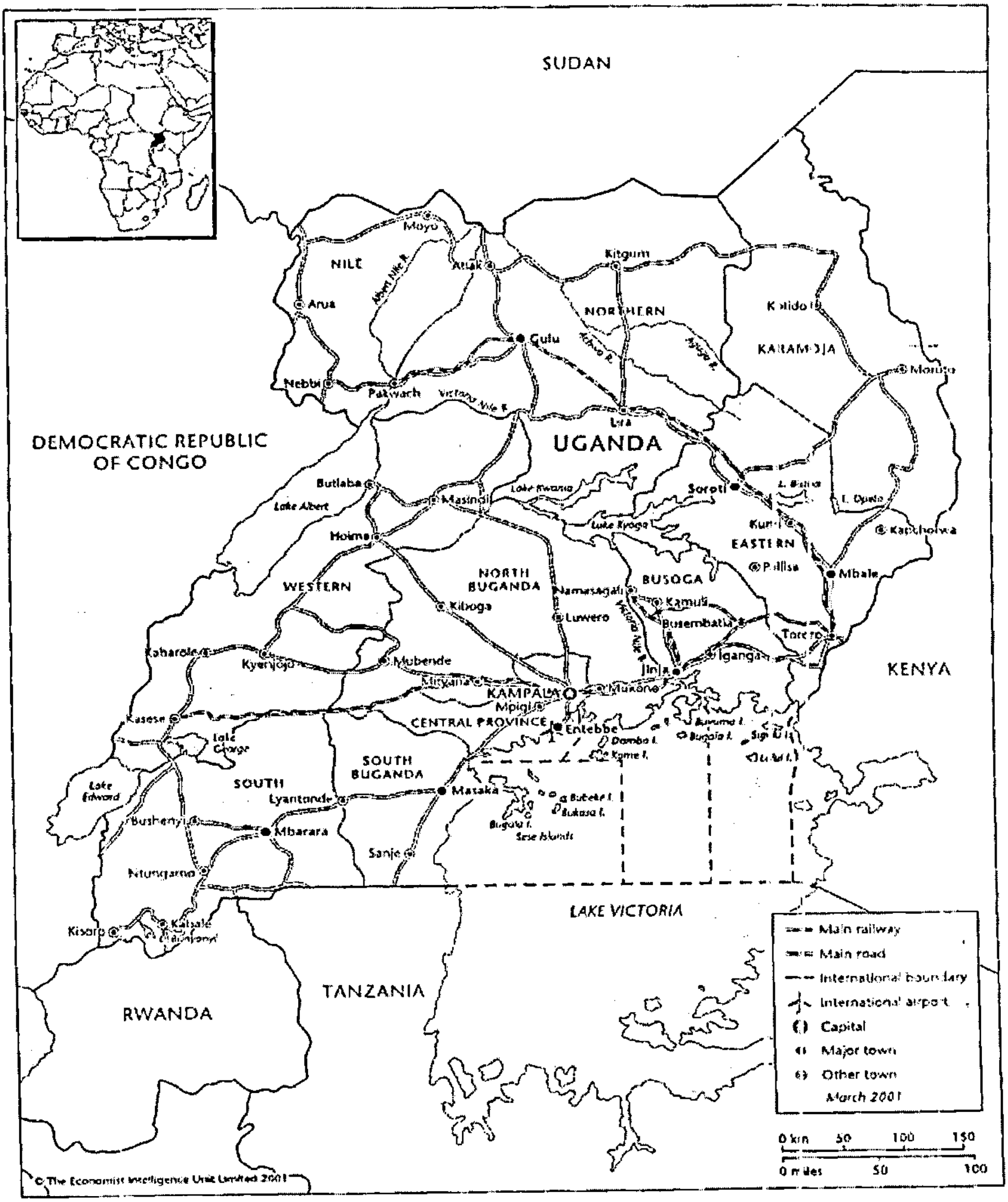
ECONOMY (1999)

GNP (USD billions)	6.8
GNP per capita (USD)	320
GNP per capita growth rate	4.1%
GDP (USD billions)	6.4
Agriculture	44.4%
Industry	17.8%
Services	37.8%
GDP growth rate (1989-99)	7.1%, (5% in 1999/00 and 2000/01)
Inflation rate	6.0% (in 2000/01)
Principal exports:	Coffee (60%), Gold (7%), Fish (5.2%), Tea (4.5%)
Principal imports	Machinery (10%), Petrol (9%), Vehicles (7.1%), Pharmaceutical (5.4%)
External debt (USD million)	3,480
Debt service (USD million)	179

SOCIAL DEVELOPMENT

Illiteracy (% of population aged 15+)	38
Primary enrolment rate:	3.1 million (1996), 6.8 million (2000)
Under 5 mortality:	170
Immunisation rates:	76 (BCG), 52 (Measles), 51 (OPV), 50 (DPT3)

ANNEX 7 - MAP


SUDAN
DEMOCRATIC REPUBLIC OF CONGO
UGANDA
KENYA
TANZANIA
RWANDA
LAKE VICTORIA
NILE
NORTHERN
KARAMOJA
WESTERN
NORTH BUGANDA
BUSOGA
EASTERN
CENTRAL PROVINCE
SOUTH BUGANDA
SOUTH
KAMPALA
Moyo
Arua
Nebbi
Pakwach
Gulu
Kitgum
Lira
Moroto
Soroti
Kumi
Mbale
Tororo
Jinja
Iganga
Mukono
Entebbe
Masaka
Mbarara
Kasese
Butiaba
Masindi
Hoima
Kiboga
Luwero
Mubende
Mityana
Mpigi
Kamuli
Busembatia
Namasagali
Kyenjojo
Lyantonde
Bushenyi
Ntungamo
Kisoro
Kabale
Sanje
Pallisa
Kapchorwa
Lake Albert
Lake Kwania
Lake Kyoga
Lake George
Lake Edward
Sese Islands
Main railway
Main road
International boundary
International airport
Capital
Major town
Other town
March 2001
0 km 50 100 150
0 miles 50 100
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